EMERGING TRENDS IN COMMERCIAL BANKS' LENDING TO PRIORITY SECTORS: A CASE STUDY OF STATE BANK OF INDIA

THESIS

SUBMITTED FOR THE DEGREE OF

Doctor of Philosophy

IN

COMMERCE

BY

BADRUZZAMA SIDDIQUI

Under the Supervision of

PROF. BADAR ALAM IQBAL

DEPARTMENT OF COMMERCE
ALIGARH MUSLIM UNIVERSITY
ALIGARH (INDIA)

2001

ABSTRACT

Banking in India on western lines had started from the beginning of the 19 th Century. The commercial banks were know as agency houses and were started by the employees of the East India Company. The first purely Indian Bank was Oudh Commercial Bank, which was, came into existence in 1884. It was followed by the Punjab National Bank in 1894.The Swadeshi Movement of 1905 gave the great stimulus to start Indian banks.

Until the introduction of social control, banks had mooring mostly in urban areas while there have been many depositors from all ranks, rich and poor alike, the credit utilisers have been predominantly the affluent section and large industrial houses which could offer security and collateral. Such concentration of credit was due to the fact that banks have been controlled for most part (except the State Bank Group) by large industrial houses and there had been a policy compulsion for the banks to achieve equitable distribution of credit. Against this background, there has been an introduction of social control in 1967, followed by nationalisation. Despite the fact that Reserve Bank of India being constituted in July 1, 1935 to extend banking facilities in rural areas and the Agriculture Refinance Corporation being established for providing refinance support to banks as a promotional level for lending to agriculture sector, there has been no direction in the terms of policy .In the absence of clear and specific lending policy and targets as well as the continuance of major banks in private ownership came in the way of deploying bank credit to neglected

sectors like agriculture ,small industrial and others small borrowers. For the same reasons, banks have been slow in opening branches in unbanked and rural centers as commercial banking operations were singularly guided by considerations of profitability and return.

With a view to bring down-trodden, hitherto neglected sectors households to the mainstream, fundamental changes in the traditional banking norms were called for to move away from security based to credit worthiness. Accordingly, initially on July 19,1969 14 major commercial banks and latter on 6 more commercial banks were nationalised on April 15, 1980, to convert banking into an instrument of development and well being rather than private profit. Among the various measures being adopted for achieving the goal of social banking, much needed focus was on upliftment of vulnerable sections of the society. In fact the concept of "Priority Sectors" was coined by Late Sri Morarji Desai, the then Deputy Prime Minister and Finance Minister of India on July 24, 1968 and was formalised in 1972 .The thrust of this sector was to cater to the financial needs of the hitherto neglected sectors and to stress emphasis on the provision of finance to weaker sections of the society. The commercial banks were advised to deploy their resources for lending to the priority sectors on the liberal terms.

Since the nationalisation, the commercial banks in India have attained impressive growth in different spheres of their activities .The number of bank offices increased from 8262 at the end of June 1969 to 65521 (a rise about 7 times) at the end of March 2000. The proportion of bank office in rural areas to the total has increased from 22.4 per cent in June 1969 to 49.9 per cent in March 2000. Taking into consideration 21.8 per cent of bank offices in semi-urban areas in March 2000 and 26.5 per cent in urban areas and 12.7 per cent in metropolitan/port town of the total bank offices, greater emphasis was placed on opening bank offices in hitherto under-banked regions of the country. Similarly, the deposits of commercial banks increased from Rs.4646 crore in June 1969 to Rs.867984 (a rise of more than 185 times) crore in September 2000. The growth of credit to priority sectors was also no less impressive .The priority sectors advances of the public sector banks increased from mere Rs.505 crore in June 1969 to Rs.131827 (a rise of 260 times) crore in March 2000. The share of priority sectors advances to total advances which stood 15 per cent in June 1969, had increased to 32.9 per cent in at the end of March 2000 which was, however less than the target set by Reserve Bank of India for the commercial banks of achieving 40 per cent target.

The main purpose of the present study is to analyse the experience of commercial banks in the social banking and priority sectors lending during the last more than three decades i.e. since nationalisation of major commercial banks. In order to examine the lending performance of commercial banks, the thesis has been divided into seven chapters.

The **first chapter** is devoted to introduction of the study. This chapter reviews literature on the study. It further reveals scope, importance, objectives and research methodology of the study.

The **second chapter** deals with the concept of priority sectors in our economy and reasons of assigning priority as compared to other sectors of the economy and importance of the neglected sectors, which were earlier, neglected by the banks. But after nationalization these hitherto neglected sectors were given due priority not because of their tremendous potential of employment generation and various other benefits they confer on the weaker sections but also because of their significant contribution to the national income. This chapter further examines definition and composition of priority sectors. In the priority sectors with certain specific advantage to the borrowers not only in the matter of availability of credit but also in the terms and conditions on which such credit is made available and whose development is essential both for economic growth and development and attainment of social justice.

The **third chapter** highlights the emergence of the concept of social banking and priority sectors lending in our economy. This chapter examines commercial banks role prior to establishment of Reserve Bank of India in 1935, the principal function associated with the commercial banks of the country were performed however inadequately, primarily by the Government of India, and to lesser extent by the Imperial Bank of India, since its establishment in 1921. The Imperial Bank acted as banker to the Government and as a bankers' bank, in addition to its primary function as a commercial banks. This chapter also brings out that banking system constitute an important link among the various economic activities and can play a direct role not only in creating the machinery needed for financing developmental activities but also in ensuring that the finance made available goes into the desired direction. Banking industry, therefore, has been called upon to play a critical developmental role in the new dimension of social and economic changes. This chapter further reveals that social banking is a corollary of social transformation in the context of commercial banking. Amelioration of the economic lot of the poorer sections of the society is the philosophy of social banking and various activities towards the upliftment of the poor and downtrodden with the aim of achieving socialistic pattern of the society. This chapter also examines when major commercial banks brought under the Government ownership, there was some concern on the part of the Government and Reserve Bank of India for achieving a synchronisation of banking and credit policies with the requirements of the economy. The chapter further reveals that the Reserve Bank of India has made an attempt at gearing up the branch licensing policy to ensure provision of adequate banking facilities in the unbanked areas. Creation of banking infrastructure in remote areas is an essential pre-requisite for achieving the socio-economic objectives set before the banking industry. A radical change was witnessed in the branches expansion programme in the post nationalization era. The branch licensing policy of the Reserve Bank of India (RBI) was, therefore, revamped and commercial banks were given license on a liberal scale to open branches in the remote rural and urban areas. The branch expansion policy was revamped by Reserve Bank of India and it came to be used as a device for promoting social banking and priority sectors lending.

The **fourth chapter** attempts to analyse the growth pattern in priority sectors lending in India. The Government of India from time to time form 19th July, 1969 onwards increasingly stressed the commercial banks role in financing priority sectors for strengthening the rural and semi urban banking structure and setting specific targets for the priority sectors advances. Accordingly, the commercial banks had started following the direction after the bank nationalisation. This chapter reveals that under the target laid down by the Reserve Bank of India the commercial banks advances to priority sectors were to constitute at least one third of their total outstanding by March, 1979. Though the banks had made considerable efforts towards achieving this goal, their achievement did not measure up to the expected target of 33.33 per cent. Similarly, the Reserve Bank of India further revised the target of achieving 40 per cent of the total outstanding credit to be advanced to the priority sectors by March 1985. This chapter further points out that India is a predominantly an agricultural country and the agriculture is an important segment of the national economy as 67 per cent of the people directly or indirectly dependent on agriculture for their livelihood. Commercial banks' participation in the financing of agriculture allied activities has been a significant and revolutionary. They have penetrated into countryside by opening their branches in rural and semi urban areas. They have adopted their lending policies and practices to suit the needs of their rural clientele. Reserve Bank of India and Government, which provides the operational guidelines, introduced the system of institutional guarantee and reduced the risk involved in financing agriculture. It further examines the small scale industries importance and distinct role in economic development of India. It may be stated that the importance of small-scale industries as an effective instrument for creating employment opportunities within the limited range of capital requirements. the advances of commercial banks to this sub sectors had increased from Rs. 286.00 crore in 1969 to Rs. 52814 crores or by about more than 180 times during March 2000. The study also reveals that the advances to other priority sectors comprising of retail trade and small business professional and self-employed persons and education, as they are less important as compared to agriculture and small scale industries. The advances to these sectors, which were only Rs. 22 crore in June 1969 and had increased to Rs. 24448.00 crore in March 2000. It also examines various poverty alleviation programmes, which have been adopted specifically to direct the flow of resources to the poor section of the society. The public sector banks have been actively participating in the schemes.

The **fifth chapter** is the study of Role of State Bank of India in financing priority sectors since 1969 and up to March 2000. The Government introduced the State Bank of India bill in Lok Sabha on April 16, 1955 and it was passed by both the Houses of Parliament and received the President's assent on May 8, 1955. The Act came into force on 1st July 1955 and from this date the whole of undertaking of the Imperial Bank within the country was transferred to the State Bank of India. With the establishment of SBI, a new chapter in the history of Indian Banking was commenced. The State Bank of India is the biggest commercial bank, which stands in a class by itself. The State Bank of India played a significant role in the economic development of the country since its inception by providing adequate credit assistance to the agriculture, small scale industry, trade and commerce in private sector as well as in public sector. The State Bank of India has come in a big way to help agriculture, small business and other neglected sectors. This chapter further analyses the objectives of State Bank of India and undertakes ordinary commercial banks business and provides credit on liberal basis to different segments in the country's economy. This chapter also examines the business of SBI which may transact as an agent of RBI of all places in India where it has branch and where there is no branch of banking department of RBI for paying, receiving, collecting and remitting money, bullion and security on behalf of any Government in India. Besides these functions SBI performs some other services such as advance money or sanction cash credit on security of goods, sale of any promissory notes, debentures, stock receipts, bonds stock shares, securities, which have been deposited with or pledge, hypothetical assigned or transferred to the State Bank as security for such advances etc. It further analyses the pace of priority sectors lending of State Bank of India (SBI) and commercial banks since nationalization of major commercial banks. This chapter also examines the various poverty alleviation programme adopted by the SBI to eradicate poverty in the economy.

Sixth chapter deals with the problems faced by the commercial banks and State Bank of India in financing priority sectors. This chapter brings to light the factors, which slowed down the pace of growth in priority sectors lending of commercial banks and State Bank of India. The analysis made out in chapter IV and V of priority sectors lending pinpoints several deficiencies in sphere of credit delivery, these are reflection in the form of lack of proper attention, inadequate income generation by assisted projects, defaults, time non-availability of credit, cumbersome nature of procedural formalities, delay in credit disbursement etc.

The **last chapter (VII)** of the thesis points out the conclusion of the study. Since the initiation of the policy of social banking and priority sectors lending the nexus between banks and big business houses has broken. The lopsided development of banking has been balanced by directing the banking system to exploit the vast potential of business in agriculture, the rural sector and small industries among others. Banks have been allowed the facility of opening branches in urban and metropolitan centers in certain proportion of the number of branches opened in rural and urbanked centers. It further concludes that the evolution of priority sectors lending policies and target have been accompanied by various support measures. This chapter further highlights the finding of the study, which indicate that, the extension of banking facilities and increase in priority sectors lending have been at "break neck speed" for many years. The target have become mandatory over the years, and the basis of fixation of target has remained virtually unchanged. It further suggests an action plan to meet the demand of credit of priority sectors and help in the proper formulation and implementation of mechanism for priority sectors lending.

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CERTIFICATE

This is to certify that the Ph.D. thesis entitled *"Emerging Trends in Commercial Banks' Lending to Priority Sectors: A Case Study of State Bank of India "* submitted by **Mr. Badruzzama Siddiqui** has been completed under my supervision. This work, in my opinion, is suitable for submission for the award of Ph.D. Degree in Commerce.

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Supervisor

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CONTENTS

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B Siddiqui
(Badruzzama Siddiqui)

ABBREVIATIONS

ACD	Agriculture Credit Department
AIRCSC	All India Rural Credit Survey Committee
AFC	Agriculture Finance Corporation
ARC	Agriculture Refinance Corporation
BFRTO	Bank Finance for Road Transport Operators
CB	Central Bank
DIC	District Industries Center
DICGC	Deposit Insurance and Credit Guarantee Scheme
DRDA	District Rural Development Agency
DRI	Differential Rate of Interest
EC	Estimate Committee
FS	Financial System
FSS	Farmers Service Society
GDP	Gross Domestic Products
GOI	Government Of India
ICOR	Incremental Capital Output Ratio
IDBI	Industrial Development Bank of India
IMRF	Institute of Financial Management and Research
IRDP	Integrated Rural Development Programme
LAMPS	Large Sized Adivasi Multipurpose Society
MSA	Multi Service Agency
NABARD	National Bank for Agriculture and Rural Development
NACF	Natural Agriculture Credit Fund
NCC	National Credit Current
NREP	National Rural Employment Programme
NSS	National Sample Survey

PACS	Primary Agriculture Credit Society
PAP	Poverty Alleviation Programme
PEO	Programmes Evaluation Organisation
PMYR	Prime Minister Rozgar Yojana
PNB	Punjab National Bank
PS	Priority Sectors
PSB	Public Sectors Banks
RBI	Reserve Bank of India
REC	Rural Electrification Corporation
RRB	Regional Rural Bank
SBI	State Bank of India
SCB	Scheduled Commercial Bank
SC/ST	Scheduled Cast/Scheduled Tribe
SEEUP	Self Employed Educated Youth
SEEUY	Self Employment Scheme for Educated Unemployed Youth
SEPUP	Self Employed Programme Per Urban Poor
SIDBI	Small Industries Development Bank of India
SSI	Small Scale Industry
SSS/BE	Small Scale Sector/Business Enterprises
TF	Task Force
WG	Working Group
WS	Weaker Section

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CHAPTER – I

INTRODUCTION

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INTRODUCTION

Poverty is a multifaceted problem in our economy, which requires to analyse from economic, social, cultural, psychological and political angles. Though poverty alleviation and employment generation have remained to be the top most important goal during all Five Years Plans of India, there has not been any dent on the problem of poverty and employment. Since the majority of the poor live in the villages, the prime thrust for poverty alleviation and employment generation should necessary commence from the villages.

Banking in India on western lines had started from the beginning of the 19 th Century. The commercial banks were know as agency houses and were started by the employees of the East India Company. The first purely Indian Bank was Oudh Commercial Bank, which was, came into existence in 1884. It was followed by the Punjab National Bank in 1894.The Swadeshi Movement of 1905 gave the great stimulus to start Indian banks. /

Until the introduction of social control, banks had mooring mostly in urban areas while there have been many depositors from all ranks, rich and poor alike, the credit utilisers have been predominantly the affluent section and large industrial houses which could offer security and collateral. Such concentration of credit was due to the fact that banks have been controlled for most part (except the State Bank

Group) by large industrial houses and there had been a policy compulsion for the banks to achieve equitable distribution of credit. Against this background, there has been the introduction of social control in 1967, followed by nationalisation. Despite the fact that Reserve Bank of India being constituted in July 1, 1935 to extend banking facilities in rural areas and the Agriculture Refinance Corporation being established for providing refinance support to banks as a promotional level for lending to agriculture sector, there has been no direction in the terms of policy. In the absence of clear and specific lending policy and targets as well as the continuance of major banks in private ownership came in the way of deploying bank credit to neglected sectors like agriculture ,small industrial and others small borrowers. For the same reasons, banks have been slow in opening branches in unbanked and rural centers as commercial banking operations were singularly guided by considerations of profitability and return.

With view a to bring down-trodden, hitherto neglected sectors households to the mainstream, fundamental changes in the traditional banking norms were called for to move away from security based to credit worthiness. Accordingly, initially on July 19,1969 14 major commercial banks and latter on 6 more commercial banks were nationalised on April 15, 1980, to convert banking into an instrument of development and well being rather than private profit. Among the various measures being adopted for achieving the goal of social banking much needed focus was on upliftment of vulnerable sections of the society. In fact the "Priority Sector" was coined by Late Sri

Morarji Desai, the then Dy. Prime Minister and Finance Minister of India on July 24, 1968 and was formalised in 1972 .The thrust of this sector would be to cater to the financial needs of the hitherto neglected sectors and to stress emphasis on the provision of finance to weaker sections of the society. The commercial banks were advised to deploy their resources for lending to the priority sectors on the liberal terms.

Since the nationalisation, the commercial banks in India have attained impressive growth in different spheres of their activities .The number of bank offices increased from 8262 at the end of June 1969 to 65521 (a rise about 7 times) at the end of March 2000. The proportion of bank office in rural areas to the total has increased from 22.4 per cent in June 1969 to 49.9 per cent in Mach 2000. Taking into consideration 21.8 per cent of bank offices in semi-urban areas in March 2000 and 26.5 per cent in urban areas and 12.7 per cent in metropolitan/port town of the total bank offices. Greater emphasis was placed on opening bank offices in hitherto under-banked regions of the country. Similarly, the deposits of commercial banks increased from Rs.4646 crore in June 1969 to Rs.867984 (a rise of more than 18582 per cent) crore in September 2000. The growth of credit to priority sectors was also no less impressive .The priority sectors advances of the public sector banks increased from mere Rs.505 crore in June 1969 to Rs.131827 (a rise of 260 times) crore in March 2000. The share of priority sectors advances to total advances which stood 15 per cent in June 1969, had increased to 32.8 per cent in at the end of March 2000 which was, however less than the target set by Reserve Bank of India for the commercial banks of achieving 40 per cent target.

(Thus after nationalisation of major commercial bank, Indian banking had undergone perceptible change in terms of geographical penetration and functional diversification as regards in mobilising untapped source of savings as also to augment credit and orient it to the needs of economy. They had rightly endeavoured to adopt themselves to the changing economic and political scene under the planned development and emerged as an effective instrument of economic development..

The most important characteristic of Indian banking on the eve of 21 st century is going to be the extensive use of microprocessors and computers. This has, no doubt, already started in a small way. The needs of the new generation of the bank clientele would, however, not be met with manual operations. In order to make our operations viable, machines would be used for rendering services at counters, for transacting, on the spot, the inter-branch and even inter-bank business of the clientele and for maintenance, upkeep and balancing of customers' accounts also for preparing data to be communicated to them from time to time. The banks would continue to serve as instruments of social change, perhaps with greater commitment. They would be called upon to help establish new projects and industries, at different levels and of different scales in hitherto non-industry centres. The banks would have to continue to finance the poorest among the poor even as the definition undergoes a change.

Significance of the Study:

This work is a holistic review of the implications of the priority sectors lending, both to the banks and the borrowers. It is designed to provide some understanding and application of policy support required to the banks to increase efficiency in credit delivery system, which has to be matched equally by the maximisation of benefits in terms of varied service rendered to the borrowers.

An attempt has been made to establish that priority sectors lending can be made both profitable and beneficial for the banks by correcting the weakness in lending procedure, loan supervision and recovery and equally by rationalising the interest rate structure. It is provided from the evaluation studies of specific schemes that the timely and adequate availability of credit rather than concession in interest rate, is desired by the borrowers, since their is a sizeable section of priority sector borrowers having the capacity to bear higher interest rates. The study is therefore not only timely but also adequate and appropriate for making some useful suggestions for policy makers in the light of experience gained so for.

Review of Literature:

Panandikar S G (1975)[1] in his book entitled. "Banking in India", explained that one of the important objectives of bank nationalisation was to channelise the flow of credit to the priority sectors or hitherto neglected sectors. The nationalised banks

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[1] Panandikar,S G, "Banking in India "published by Orient Long man New Delhi, 1975; p.594.

have made marked progress in this direction. He also mentions that the share of priority sectors in the total credits of the public sector banks increased from 15 percent in June, 1969 to 25 per cent at the end of December 1973.Between June, 1969 and September 1972, the number of borrowal accounts with the public sector banks under priority sectors viz., agriculture, small scale industries, road transport operators, retail trade and small business, professional and self employed persons and education rose from 2.6 lakh to 15.59 lakh. Again the advances by public sector banks to the priority sectors increased from 438 crore in June 1969 to 1367 crore in September 1973. Finally, he pointed out that the agriculture and small scale industries together accounted for nearly 80 percent of the total credit extended by public sector banks to the priority sector in this period.

Barnawal S P (1976)[1] in his book entitled, "Guide to Indian Banking" pointed out that in pre- nationalisation days, vast segment of the economy such as agriculture, village industries, small trade and services, small road and water transport endeavors, new entrepreneurs possessing technical qualifications and student of poor means struggling for higher learning remained out side the area of operation of commercial banks. But, after nationalisation, it has been the endeavor of the banks to give increasingly attention to these neglected sectors. Special schemes have been prepared by the banks with a view to ensuring that the bank finance can play an effective role in stimulating productive endeavours in these sectors. As a result, the efforts put in by

1. Barnawal,S P, "Guide to Indian Banking" published by Guide Publications, New Delhi, 1976; pp 71-72.

all concerned, significant progress has been achieved in this regard. Today, out of every 100 accounts maintained by the banking system, at least 47 accounts related to these sectors compared to 23 in June 1969. He also pointed out that advances of public sector banks to these sectors have increased form about Rs.440 crore in June, 1969 to 1870 crore in December 1974 and the borrowal accounts from 2.6 lakh to 30 lakh. As a result, the total advances of public sector banks in terms of percentage was 14.9 per cent in June, 1969 has improved to 28 per cent by December1979.

Another book entitled, " Banking Policy in India: An Evaluation" by **Ghosh D N (1979)**[1] explained that the credit to priority sectors recorded a sharp increase under the impact of nationalisation. The sector to which credit mainly followed were agriculture, small-scale industries and export, but a few new categories came to added, namely road transport operator, professional and self employed persons, retailed traders and education. At end of June, 1969,the public sector banks had borrowal accounts relating to the priority sectors of the order Rs.2.6 lakh. By the end of June 1976, the corresponding number went up to about 47.22 lakh, a more than 18 folds increase over a period seven years. As far as quantum of lending, the outstanding advances of Rs. 441crore at the end of June 1969 increased to about 2527 crore by the end of June 1976. During the first year of nationalisation, the priority sectors advances rose by about Rs. 328 crore. Thereafter, although the pace somewhat slackened by banks had been able to increase this portfolio by about Rs.160 crore in

[1] Ghosh,D N. "Banking Policy in India: An Evaluation" published by Allied Publisher. Bombay. 1979; P 268

in 1970-72. Modernisation in the rate of growth was not

possible due to some administrative and operational constraints such as trained and technically qualified manpower, nature of sanctioned procedures and decentralisation of loaning powers. The author also mentioned that lending of the public sectors banks to priority sectors which constituted 14.9 per cent of their total advances at the end of June, 1969 has improved to 25.5 per cent at the end of june1976. With the priority group, the most striking increase has been in regard to agriculture. Direct finance increased its share within the group formed 9.11 per cent in June 1969 to 28.73 per cent in June 1976. At the end, he also indicates that indirect finance is granted to individuals or agencies in the supply of production inputs and other services to agriculture, like credit for financing, the distribution of fertilizers and other inputs, loan to electricity board for financing their well energization programs, loans to primary agriculture credit societies etc.

A book entitled "Banking Law and Practice" **Varshney PN**[1] published in **1979** in which author opines that before the experiment of social control, banks had hardly given any attention towards advance to agriculture and small industries. Small borrowers coming from a vast self-employed sector, were not at all served by the banking system. However, banks after nationalization financing of agriculture, small industries and self-employed persons gathered considerable momentum and a number of special credit scheme have been evolved for this purpose. The entire outlook of the

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[1] Varshney, P N, "Banking Law and Practices" published by Sultan Chand and Sons, Delhi, 1979; p 3.159

India bankers has changed and the traditional Indian banking is evolving into a creative one. In the last, he mentions that the lending policies of commercial banks before imposition of social control were characterized by the disproportionate flow of credit to larger business and industrial houses and almost total neglect of a small sector of economy.

Desai V (1979)[1] in his book entitled "Indian Banking" clearly explained the scheme of social control over banking which was introduced in 1968 with the main objectives of achieving a wider spread of bank credit, preventing the misuse, directing a large volume of credit to priority sectors and making it a more effective instrument of economic development. It was considered necessary to evolve proper guidelines for bank management and to promote a re-orientation of their decision making machinery, so that the decision of monetary and credit policy formulated by the Reserve Bank of India could be effectively implemented. It was also felt that a purposeful and equitable distribution of credit should be ensure with the help of periodical assessments of the demand for the bank credit, determination of priorities for lending and investment among various sectors of the economy. He also pointed out the important effects of social- reorientation which increased supply of credit to these sectors, which had been previously neglected by banks such as small scale industries, agriculture, small business, retail trader, transport operates etc. Most of these borrowers are men of small means, who are not usually in a position to offer

[1] Desai, Vasant. "Indian Banking" published by Himalayas Publishing House Bombay, 1979 pp. 178-182

adequate security to banks. But in aggregate they do play an important role in the economy by their contribution to the national product.

Sethi T T (1981)[1] in his book entitled, "Monetary Economics", explained that after nationalisation commercial banks have extended liberal credit facilities to priority sectors of the economy which include, agriculture, small-scale industries and other priority sectors comprising, small borrowers such as road and water transport operators, retail traders, small businessmen, professional and self employed persons, and persons desirous of receiving higher education. The author highlighted that expansion achieved in this direction is evidenced by the fact that scheduled commercial banks' advances to priority sectors increased from Rs.441 crore to Rs.6729 crore between June 1969 and March 1980. Percentage of priority sectors in total banks credit has increased from 14.0 per cent in June 1969 to 31.2 per cent in March 1980. Advances to agriculture at the end of March 1980 amounted to Rs.2760 crore and formed 39.6 per cent of the total priority sectors advances. He also mentions that against the total advance on all scheduled commercial banks to agriculture stood at Rs.188 crore at the end of June 1969, of which indirect finance had amounted to Rs.134 crore. In quantitative terms, banks are expected to increased their agricultural advances so as to form at least 16 per cent of their total advances by March 1983. As also to ensure that advances to small and marginal framers account for at least 50 per

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[1] Sethi T T, "Monetary Economics", polished by Sultan Chand and Company, Ltd New Delhi, 1981; pp 791-792

cent of the outstanding direct agricultural advances (excluding those for allied agricultural activities) by March 1983. Advances to small- scale industries rose from Rs.286 crore at the end of June, 1969 to Rs. 2630 crore at the end of March, 1980 and account for about 39 per cent of the total priority sectors advances. A high powered committee which went into question of bank credit problems of small–scale industries recommended in February, 1978, that the banks should give up the conventional security oriented approach and grant loans on the basis of viability of schemes. The Reserve Bank of India asked the commercial banks to be liberal and 'flexible' in assisting small-scale industries. No viable schemes should be turned down merely for want of margins, collateral security or guarantee. Of the total priority sectors advances agriculture and small-scale industries together account for more than 80 per cent. At the end he pointed out that the share of small borrowers has improved, but it is not substantial. Their share in total advances for priority sectors was Rs. 31 crore only in June 1969. This increased to Rs. 1333 crore in March, 1980, but it was only 63 per cent of gross bank credit. With a view to enlarging the flow of bank credit to neglected sectors banks were advised by Government that their priority sectors lending should reach not less than one-third of their outstanding credit in March 1979.The guidelines set out in March 1980 stipulate bank finance to the priority sectors to reach a level of 40 per cent of their total credit by March 1985.

Gupta S. N. C (1982)[1] in his paper entitled, "Progress and Performance" has explained that banks were nationalised for the million of small farmers, artisans and other self employed persons, a bank can be a source of credit, which is the very basis for any to improve this meagre economic lot. Accordingly, the main thrust of banking administration has been towards making credit available to those sector of the society which have all long neglected by the security oriental banking system. The hitherto neglected sectors have been given priority and Government has deliberately adopted the policy that bank credit should be available to agriculture, small scale so long dependent on village money leader. He also points out that, priorities have been specifically allocated to artisans, small scale industry, operators of transport services, and those who are self employed, By and large, bank advances to these sector, which stood at about 15 percent of their total advances in 1969, had exceeded 26 percent of total advances by June 1975.

Bhat N S (1982)[2] in his paper entitled", Priority Sector Financing", pointed out that after the nationalisation, commercial banks extended credit to priority sectors like agriculture, small -scale industries and the retail trade, self employment scheme, education etc. These sectors are now popularly called the priority sectors of the

1 Subrahmanya K N (edited), "Modern Banking in India" , Gupta S N C, "Progress and Performance " published by Deep and Deep Publications, New Delhi, 1982, pp. 17-22
2.Subrahmanya K N, op.cit., Bhat N S, "Priority Sectors Financing", pp. 75-84

economy and increasing participation by the commercial banks in financing productive activities of these sectors. Since bank nationalisation presents a marked shift in credit activities of commercial bank in the country, financing of the priority sectors on increasing scale required to meet the needs of rapid economic development, prices stability and social justice. He also pointed out that the increasing flow of credit had the desired affect on agricultural productions. The author was also of the view that small scale and cottage industries, retail trade were denied of their genuine bank credit. Finally the author suggested that commercial bank should give up the traditional commercial loan theory while granting loan.

A paper entitled "Analysis of Credit Planning by Banks" by contributed by **Singh R R (1982)**[1] analyses that after nationalization of commercial banks and adoption of the various measures of credit planning through credit deployment in favour of the priority sector has increased from 14.6 percent in 1969 to 32 percent in 1979 of the total advances. In a country like India, the objective of credit planning is not merely to allocate more credit to priority sectors of the economy but to the priority section of the society, i.e., the weaker sections consisting of small and marginal farmers, agricultural labourers and poor artisans class. The allocation of credit in the agricultural sector has largely benefited the big farmers and affluent sections of the population. Within the banking industy the RBI, at the national or aggregate level,

1. Subrahmanya K N op.cit., Singh R R, "Analysis of Credit Planning by Banks", pp25-31.

many think of providing cheaper credit to the priority sectors but an individual bank may take a somewhat restrict view of things. The author finally mentions that for the success of economic planning, credit planning has become a catalytic element because availability of credit to the various priority sectors and proper adjustment between the supply of and demand for credit lubricates the mechanism of the development plan as well as keeps inflation under control.

Yet Another paper entitled, "A Decade of Nationalised Banking", by the **Singh R R (1982)**[1] reveals that as a result of various measures, the sectoral distribution of credit has undergone a marketed change in favour of the priority sectors and the small borrowers. A target placed before the banks in this regard was to raise the level of their advances to priority sectors to 33.33 percent of total advances. As at the end of December, 1978 they had reached 32 percent, the amount outstanding being Rs. 4991 crores, In June 1969, priority sectors advances of these banks amounted to Rs 441 crores accounting for 14.9 percent of the total advances. Among the priority sector advances agriculture (direct and indirect) covered 13.4 percent in December 1978 as against 5.5 percnt in June 1969, whereas the share of small scale industries increased to 12.8 percent from 8.5 in the same year.

A study entitled "Changing Scenario Over Decade", by **Devi R A K (1982)**[2] analyses that commercial banks have been under pressure from the Government to set

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[1] Subrahmanya K N, op.cit., Singh R R, "A Decade of Nationalized Banking", p p11-16.
[2] Ibid.

up advances to priority sectors comprising agriculture, small industry and other welfare measures. Priority sectors advance rose from Rs. 504 crores in June 1969 to Rs. 6729 crores in March 1980, taking their share from 14 percent to 31.7 percent.

Although this was lower than the target of 33.33 percent the commercial banks were required to achieve before March 1979. The share of agriculture rose from 5.2 percent to 13 percent while the share of target medium industries decline from 52.2 to 39.2 percent. While financing priority sector schemes emphasis has been on meeting the financial requirements of their weaker sections of the society like small farmers, marginal farmers, landless labourers, rural artisans, small entrepreneurs etc.

Another paper entitled, "Banking and Economic Growth", by **Jha KP (1982)**[1] reveals the main objectives of nationalization of major commercial banks were to provide adequate credit to the neglected sector like agriculture, small industry, and export industry. In June 1969, advances to the designed priority sectors formed only 15 percent of the total advances of the nationalized banks and SBI Group. Since nationalization, the commercial banks continued to extend liberal credit facilities to the priority and neglected sectors of the economy. A part from financing public food procurement and exports, commercial banks continue to extended liberal credit facilities to the priority and neglected sectors. Their lending under differential interest rates to the weaker section of the borrowers also went up considerably. With a view to enlarging the flow of bank credit to neglected sectors, Government has advised public

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[1] Subrahmanya K N,op.cit., Jha K P, "Banking and Economic Growth", p. 54

sector banks to make efforts to increase the proportion of neglected sector advances to the level of 33.33 percent by March 1979.

An article written by **Patnaik SC (1982)**[1] entitled, "New Dimensions of Commercial Banking", mentioned that the Reserve Bank has advised the public sector banks that priority sectors in the economy and advances under special schemes together account 33.33 percent of the aggregate advances by March 1979. The schedule commercial banks are now required to play a dynamic role in achieving the plan objectives by providing institutional credit support to various programmes of development in the priority sectors for increasing productivity and employment.

Vaish M C (1982)[2] in his book entitled, "Monetary Theory". has made out commercial banks progress after nationalisation in respect of improving the relative share of credit to priority sectors. The share of advances to these sectors by schedule commercial banks rose from 24.8 per cent of total advances in December 1973 to 26.7 per cent in December 1974. Public sectors banks accounted for 89 percent of total priority sectors advances at the of December 1974. The share of State Bank group and that of fourteen nationalised banks in total priority sectors advances worked out to 38.8 percent and 58 percent, respectively. The total advances to agriculture by schedule commercial banks increased from Rs.614.9 crore in March 1974 to Rs.798

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[1] Subrahmanya K N, op.cit., Patnaik S C, "New Dimensions of Commercial Banking", pp.37-46.
[2] Vaish M C, "Monetary Theory" pub. Ratan Prakashan Mandir. Delhi, 1982. pp. 219-222.

crore in March 1975 forming about 9.3 percent of their total outstanding credit. About 68 per cent of the total outstandings in March 1975 represented direct finances to agriculture which registered a rise of Rs.125.7 crore over march 1974.This increase was mainly in short term loans which were higher by Rs.66 crore while rest viz., Rs 59.7 crore was accounted for by other types of loans, not only banks advances to the agriculture sector moved up but banks also continued to be involved in an increasing degree in assisting farmers who derived benefits from other financial institutions. Banks were also continued to assist the identified farmers in these areas amounted to Rs,17.69 crore at the end of December 1974 as compared to Rs.10.78 crore a year ago. The small scale sector continued to receive increasing amount of bank credit. At the end of June, 1974,the total amount of credit outstanding to this sector aggregated Rs.1147 crore showing an increase of Rs.184 crore or 19.1 percent over the level a year ago. At this level, advances to this sector accounted for 14.9 per cent of total net bank credit. The bulk of this amount (Rs.1017 crone) was in respect of the small scale industries as against Rs.859 crone at the end of December 1973. Consequently, their proportion to the total bank advances increased from 12.8 percent to 13.2 percent. Commercial banks advances to other priority sectors, like retailed trade, small business, professional, self- employed persons and also education purposes aggregated Rs.193 crore at the end of December1974.

Shekher K C (1982)[1] in his book entitled, "Banking Theory and Practice", mentioned that advances to priority sectors increased by 1188 crore as against 750 crore earlier. At the end of May 1979, priority sectors advances constitute 30.5 per

cent of the total bank credit as against 28 per cent a year ago. Advances to priority sectors, however constituted 48.9 per cent of this incremental (net) credit which was higher than the position recorded a year earlier. Of the additional advances to priority sectors, agriculture and small sectors accounted for Rs. 477 crore 332 crore, respectively, compared with Rs. 274 crore and Rs. 263 respectively in corresponding period of 1977-78. Total advances to agriculture at the end of may 1979 amounted to Rs. 2203 crore and formed 39.9 per cent of total priority sectors advances against 39.1 per cent a year ago while advances to small scale industries at Rs. 2188 crore accounted for 39.6 per cent of total against 40.7 per cent a year earlier.

Angadi V B (1983)[2] in his article entitled, "Banks Advances to Priority Sectors: An Enquiry into the Causes of Concentration", pointed out that the policy on priority sectors advances assumed great significance after nationalisation of commercial banks in 1969. The policy has come to be regarded as one of the most important policies aiming at attaining the socio- economic goals. As a matter of fact, the concept of priority sectors advances was formulated as early as in 1968 before the scheme of social control over the commercial banks was launched. The principal

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[1] Shekher K C, "Banking Theory and Practice", Vikas Publishing House Pvt. Ltd., New Delhi; 1982, pp. 97-98

[2] Angadi V B, "Banks Advances to Priority Sectors: An Enquiry into Cases of Concentration" Economic and Political Weekely, Vol, XV111, No.13, (March 26, 1983) p.503.

objectives of new scheme were to achieve a wide spread of bank credit, avoiding concentration, and directing a large volume of credit flow to hitherto neglected sectors. In 1979 commercial banks were advised to enlarge the flow of credit to the priority sectors, so as to raise their share in aggregate credit to 33.33 per cent by the end of March 1979. Subsequently in 1980 this ratio has been raised to 40 per cent, to be achieved over a period of five years (by March1985). It has been recognised that the distribution of priority sectors advances of scheduled commercial bank has not been equitable among the different sections within the respective sectors. Therefore, scheduled banks have been directed that, in the agricultural sector, not less than 50 per cent of the banks' lending to agriculture should go to weaker sections by 1983. In the small-scale industry sector, the weaker section should get 12.5 per cent of the total advances by 1985 as against 6.25 per cent. Similarly in other priority sectors, certain conditions were imposed on lending for the benefit of the weaker sections in the respective sections. Finally, the author find the distribution pattern of priority sector advances, among the states, reveals that neither their growth during the period nor their proportion to total credit in the respective state was uniform and equitable. In Orissa, Bihar, Haryana, the share of priority sector advances in the total bank credit in these sectors shot up significantly from 11.2 per cent to 49.9 per cent, 9.1 per cent to 49.7 per cent, and 28.2 per cent to 60.9 per cent, respectively. The share of priority advances in the bank credit in the respective states was highest (72.7 per cent) in Jammu and Kashmir.

Agrawal A N (1985)[1] in his book entitled, "Indian Economy Problems, Development and Planning" pointed out that after improvement in banking system, commercial banks have devoted special attention to the hitherto neglected sectors. These include: agriculture, small-scale industries, small business including retail trade road transport operators, self employed persons and professional etc. The total credit which these sectors could get in 1969 was just Rs. 505 crore. This increased rapidly by as much as 25 times to stand at Rs.12565 crore in June 1983. As a result, its share in total advances of commercial banks rose from 14 per cent to 35.4 per cent. With in the priority sectors agriculture, small-scale industries and small business account for a major share. In the case of agriculture the advances measured from Rs.188 crore to 3356 crore. As a result, its share of the total credit to the priority sectors improved from 5.7 per cent to 15.1 per cent Similarly, in the case of small-scale industries the bank credit rose from 294 crore to Rs.7209 crore, with its share rising from 8.7 per cent to 20.4 per cent.

Srivastava P K (1986)[2] in his book entitled, "Baking Theory and Practice", has pointed out that after nationalisation of banks in 1969 the share of priority sectors, food procurement agencies etc. have shown significant increase. One of the major tasks under taken by banks is the extension of credit to the small borrowers in the

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[1]. Agrawal A N, "Indian Economy Problems, Development and Planning". Vikas Publishing House Pvt. Ltd., New Delhi, 1985; p.553

[2]. Srivastava P K, "Banking Theory and Practice", Pub. by Himalayas Publishing Co. Mumbai, 1986; pp.34-35

hitherto neglected sectors of the economy. Various schemes have been drawn up and implemented by banks to extend credit to small borrowers in sectors like agriculture, small-scale industries, road and water transport operators, retail trade and small

business which traditionally had very little share in the credit extended in the past. In recent years, the banks have not only been enlarging the volume of credit, but have also increased the portion of it, going to small and poor borrowers of the weaker sections of the society. Banks are making social efforts to assist weaker sections to enable them to under take self employment venture or income generating capital assets to improve the standard of living. Another measure of the thrust of the banks' lending efforts towards weaker sections is their involvement in and support to the neglected Rural Development Programme which is directed towards those below poverty line. The programme envisages capital subsidy and credit assistance to identified poor families for acquiring income generating assets to come up above poverty line.

Sethi T T (1987)[1] in his book entitled, "Money, Banking and International Trade", mentioned that after nationalisation, commercial banks have extended liberal credit facilities to the priority and neglected sectors of the economy which include agriculture, small- scale industries road and water transport operators, retail trade and

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[1] . Sethi T T, "Money Banking and International Trade", pub. Sultan Chand and Company, New Delhi, 1987; pp.433-434

small businessmen, professional and self employed persons and person desirous of receiving higher education. The author reveals that with a view to enlarging the flow of credit to neglected sectors, banks should advised by Government that priority sectors lending should reach a level of not less than one-third (33.33 per cent) of their outstanding credit by March 1979. The guidelines set out in March 1980 stipulated bank finance to priority sectors to reach 40 per cent of their total credit by March 1985.The appreciable expansion achieved in the direction of lending to priority sectors is evidenced by the fact that scheduled commercial banks' advances increased from Rs.505 crore to Rs.18407 crore between June 1969 and March 1985. Percentage of advances to priority sectors in total bank credit has increased from 14 per cent in June 1969 to 39.9 per cent in Mach 1985, against the target of 40 per cent of total bank credit to be reached by March 1985. Advances to agriculture at the end of March 1984 amounted to Rs.7657 crore and formed 41.6 per cent of the total priority sectors advances. He also express that in quantitative term, the banks were expected to increase their direct agricultural advances so as to form at least 15 per cent of their total advances by March 1985. Advances to small- scale industries rose from 286 crore tat the end of June 1969 to Rs.6608 crore at the end of March 1985. The commercial banks were asked to give up the conventional security-oriented approach and grant loans on the basis of the viability of schemes. The Reserve Bank of India has asked commercial banks to be liberal and `flexible' in assisting smaller of the small-scale industries. Of the total priority sectors advances, agriculture and small-scale industries together accounted for 80 per cent. The share of small borrowers has improved, but it is not substantial. Their share in total advances for priority sectors was Rs.31 crore in June 1969. This has increase to Rs.4142 crore in March 1985, but it was only 22.5 per cent of net bank credit.

Bhatia and Chawla A S (1988)[1] in their article entitled "Emerging Issues in Priority Sectors Financing" observed that the agriculture, small-scale industries, industrial estates road an water transport operators professional and self employed person, education, preshipment and post shipment were treated as hitherto neglected sectors. But after the nationalisation of major banks, these neglected sectors have been given due priority not only because of their tremendous potential for employment generation and various other benefits, but also because of their significant contribution to the national income. In this paper the authors also explained that the banks were advised in 1977 to enlarge the flow of credit to priority sectors, so as to raise their share in aggregate credit to 33.33 per cent by March 1979, and subsequently, in 1980 this ratio was raised to 40 per cent. Finally the author finds some factories which needs corrective action to make priority sectors result oriented. There are prevalent (1) poor quality of lending (2) worsening recovery position (3) improper identification of borrowers and activities (4) lack of zeal and commitment in bank officials. It is, therefore, suggested that the priority for commercial bank lending

[1]. Chawla A S, Uppal K K,and Malhotra K (edited), "Indian Banking Towards 21 st Century", Emerging Issues in Priority Sectors Financing", published by Deep & Deep Publications, New Delhi 1988, pp. 64-65

should be laid down at State's level keeping in view the demand of the economy from financial system.

Siddaiah T (1988)[1] in his paper entitled, "A Diagnostic Study of Overdues in Commercial Banks" explained that the nationalization of major commercial banks in the country in July 1969 heralded a new philosophy of banking. There has been a fundamental shift from class banking to mass banking. The commercial bank have been called upon to orient and direct their activities towards the upliftment of the poor and downtrodden in the society in order to achieve the 'socialistic pattern' of society. Thus, the commercial banks are recognised as important agents in the process of socio-economic transformation. They have opened branches on a massive scale particularly in the countryside. Along with the spread of branch network there has been a qualitative change in the deployment of credit. It also examines the public sector banks advances to priority sectors, which stood at Rs. 20,853 crore in March 1986 constituting about 43 per cent of their total advances.

Bishnoi T R (1988)[2] in his thesis entitled, "Size and Performance of Commercial Banks in India", pointed out that as against the policy of target of 33.33 percent of total banks credit to be made available to priority sectors, in October 1980 the target of priority sector credit was raised to 40 percent of total banks credit to be

1 . Chawla A S, Uppal K K,and Malhotra K (edited). "Indian Banking Towards 21 st Century". Emerging Issues in Priority Sectors Financing", published by Deep & Deep Publications, New Delhi 1988. pp. 64-65

2 . Bishnoi T R, " Size and Performance of Commercial Bank in India", The Thesis submitted at Mumbai University for the award of Ph.D. 1988, pp. 232-234

achieved by March 1985. Hence credit of all banks had increased to 39.21 percent in 1980 and further to 42 percent in 1982. Among banks groups the proportion of credit deployed by large banks to priority sectors was lowest at 34.35 percent in 1974 and 37.72 percent in 1980. The author has also mentioned the State Bank of India (SBI's) proportion of credit to the priority sector was the highest in 1974 and the lowest in 1982. In 1980, its credit of 40.63 percent to these sectors was than the proportion of priority sector given the large and small banks. He finally indicate that among the priority sectors, the small scale industry was at the top in 1974 on the basis of 12.71 percent of total credit given by all banks. Next important sectors were agriculture and export with 9.86 percent and 8.3 percent respectively.

Datt R and Sundaram K P M (1988)[1] in their book entitled, "India Economy", explained that prior to nationalisation, banks neglected to provide credit to priority sectors. But after nationalisation, banks have devoted considerable attention to provide credit to these priority sectors. The public sectors banks have to be praised for the enthusiasm with which they took to the new task and reoriented their policies and procedure to cope with it. They have made good progress towards what was one of the main objectives of natioalisation. Most of the borrowers were formerly at the mercy of money lenders and paying usurious rates of interest anything upto 36 per

[1]. Datta R and Sundharam K P M, " Indian Economy", pub. by Sultan Chand and Co. New Delhi; 1988. p.714

cent or even more. Commercial banks are now increasingly providing timely and adequate credit at low rate of interest 4 percent. Public sector banks have extended liberal credit facilities to the priority sectors, viz., agriculture, small-scale industries etc. Total credit extended by the public sector banks to these sectors went up from Rs.441 crore in June 1969 to Rs.18840 crore in June 1981.As a result, advances to priority sectors as percentage of total credit increased from about 15 per cent in June 1969 to over 41 per cent by the middle of 1985. The rate of progress was rapid soon after nationalisation but later progress was more modest. The relatively slow progress of advances to the priority sectors was due to the fact that the bank officials from top to bottom were not imbued with the new objectives of banking. At the same time, banks were also worried at the poor and unsatisfactory recovery performance of the agricultural and small- scale sectors.

Srivastava R M (1991)[1] in his book entitled," Management of Indian Financial Institution", observed that the objectives of nationalisation of banks was to direct large volumes of credit flows of the banking sector into the priority sectors. He also described the new credit policy adopted by the banks. The bank would pursue the production nexus approach instead of the asset nexus approach while dispensing

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[1] Srivastava R M , " Management of India Financial Institution" pub Himalya Publishing House Bombay, 1991, pp.235-236

assistance to the priority sectors. For example, the viability of the project would be judged on the basis of whether the incremental income that would be generated by undertaking an activity with the help of bank finance would be sufficient to ensure the repayment of the loan. He also mentioned that the bank would not insist on security and personal guarantee for loan purposes. Priority sectors would receive lending facility on relaxed terms and conditions. Under the new policy, a commercial bank would entertain viable proposals even for composite finance. The banks were also asked by the Reserve Bank of India to adopt target oriented programmes for financing

priority sectors. The public sector banks were advised to enlarge the flow of credit to priority sectors, so as to reach a level of 33.33 per cent of their out standing credit by the end of March 1979.Subsequently, in 1980, this ratio was raised to 40 per cent to be achieved over a period of five years (by March 1985). With a view to ensuring an equitable distribution of bank credit among the priority sectors, they have been directed to lend not less than 16 per cent of the total bank credit facilities to the agricultural sector by 1985. Now this has been raised to 17 per cent. Further, direct advances to weaker section in agriculture should reach a level of at least 10 per cent of the total lending to agriculture and allied activities by 1985. He pointed out the various schemes launched by the commercial banks to support priority sectors.

Anand S C (1992)[1] in his article entitled," Is Priority Sector Lending Still A Drag on Profitability ?",explained that originally priority sectors were designed for allocation priority.

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[1] . Anand S C, "Is Priority Sectors Lending Still a Drag on Profitability ?",The Banker, New Delhi. Vol. 39 No. 8, (Oct. 1992) p.35

In this scene the first occasion when the term priority sector was used appear to be on December 1967 when Late Shri Morarji Desai, the then Prime Minister and Finance Minister said in Lok Sabha and he referred to the fact that these sectors were not been receiving their due share of bank credit. Concessionality in interest was first introduced in March 1972, since than, the definition of priority sectors under went several changes and the concessionality to different sub-sectors extended and depends. He also explained, that it is desirable to have an analytical look at to whether even earlier, has priority sectors lending been a strain on the profit of commercial banks. In this article, the author finds that income and net profit has been witnessing increase even there was a growth in priority sector lending.

Tannan M L (1993)[1] in his book entitled, "Banking Law and Practices in India", mentioned that before 1969 the flow of credit to priority sectors was negligible. He also observed that for various historical reasons the bank advances were directed to the large and medium-scale industries and big and established business houses, while agriculture, small-scale industries and exports- the emerging priority sectors did not receive adequate attention. But after social control in 1969, provision was made to finance the neglected sectors of the economy.

Preet HS (1993)[2] in his thesis entitled," Social Banking in Patiala District",

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1 . Tannan M L, "Banking Law and Practics in India", pub. by Orient Law House, New Delhi 1993, pp.609-615

2 . Preet S H, " Social Banking in Patial District", The Thesis Submitted at Punjabi University, Patiala for the award of Ph.D. 1993, pp. 89-91.

discussed that in November 1974. the banks were advised to raise the share of priority sector in their aggregate advances to the extent of 33.33 percent of their total advance over a period of 5 years. In 1980, the target for priority sector advances of the public sector banks was raised to 40 percent to be achieved by March 1985, out of which not less than 16 percent (of the total advances) was to be advanced for direct agricultural. No upward revision in the overall target of priority sector has been made since it was fixed in 1980. However, the target for direct agricultural advances was raised to 17 per cent in 1988 and further 18 percent in 1989. He also mentions that the commercial banks are suppose to lend 25 percent of priority sector advances (10 percent of total banks credit) to the weaker section of the society. As at the end of June 1990, advances to weaker sections by public sector banks aggregated to Rs. 10,086 crore which constituted 11 percent of their total bank credit as against a target of 10 percent.

Patel S G (1994)[1] in his thesis entitled " Role of Commercial Banks Lending to Priority Sectors in Gujarat; An Evaluation", explains that bank lending in India has moved away from financing trade to financing industries. In recent years, several new claimants for bank credit have emerged and banks now finance small scale industries, agricultural and the weaker section of the economy. He mentioned the role of commercial bank lending to priority sectors in Gujarat has been undertaking with the

[1] . Patel S G, " Role of Commercial Bank Lending to priority Sectors in Gujarat; An Evaluation ", The Thesis submitted at Sardar Patel University, Gujarat for the award of Ph.D., 1994; pp. ii-iii.

objective to evaluate the growth of commercial bank. In Gujarat, to know the modus operandi of priority sectors lending by the commercial bank, to analyse progress made by commercial banks, to make an indebt study of priority sector lending of the selected banks in the State and to suggest ways and means for improving the quality lending to this sectors. He also mentioned that priority sectors advances of public sectors bank increased from Rs. 441crore in June 1969 to Rs. 44995 crore in June 1992. The study also analyses the overall performances of commercial bank in financing priority sectors in Gujarat.

Srinivasan R (1995)[1] in his book entitled "Priority sector Lending - A Study of Indian Experience" observed that the banks in India as in other countries, are the most important financial intermediaries and as such they intermediate between the savers and users of funds. Bank act as a essential links between people who have savings and those require money for investment in business activity. The evaluation and emergence of priority sectors and social banking concept, the composition of priority sectors the target pattern adopted at a nationational level planning system devised and implemented by the banks for the realising the socio- economic objectives. For a achieving the socio-economic objectives, the banks directed to increase the credit assistance to the neglected sectors like agriculture and allied activities, small scale industries, professional and the self employed, retail traders and other small business men. Certain minimum portion of the priority sector credit has to

[1]. Srinivasan R, " Priority Sector Lending - A Study of Indian Experience", pub.by Himalaya Publishing House Mumbai, 1995; pp 1, 70, 83.

be deployed to the identified weaker sections which include small and marginal formers, landless labourers, share croppers, artisans, village and cottage industries. A better growth of priority sectors lending has been made possible through the allocation of a larger share of the incremental credit to defined priority sectors. The share of priority sectors in annual increase in total credit has been progressively stepped up from 28.4 per cent during the period 1969-1975, to 38.3 per cent during 1976-1980, 42.8 per cent during 1985-1989. The main burden of priority sectors and rural lending have been on the public sector banks. The public sector banks have been reaching out to large number of small borrowers through the implementation of various lending schemes. The experience of priority sectors lending has been unique in the realm of banking business. It must be pointed out that banking being a service activity has never been a high profit area.

Juneja N K (1996)[1] in his book entitled " Qualitative Strategies For Social Lending" explained that since nationalisation of banks, flow of credit has been increased tremendously to the neglected sectors as well as to the weaker sections of the society and promoting their economic welfare. This could be possible through the expansion of vast number of branches in rural and semi- urban areas to achieve the objective. The author also pointed out the lending norms of priority sectors for smooth flow of credit to different segments of priority sectors.

[1] . Juneja N K, "Quantitative Startegies For Social Lending", pub.by Suneja Publishers Delhi; 1996, p.19.

Misra S K Puri V K (1997)[1] in their book entitled, "India Economy", explained that before bank nationalisation, the lending policy of commercial banks was highly discriminatory. Their anti-small borrower bias was obvious, and they generally ignored the claim of small-scale industries in respect of credit. Hence agriculture, small-scale industries and other priority sectors fail to get the required bank credit in spite of their importance in the country's development planning. Later on the scheme of social control over banking was introduced under which banks were required to allocate bigger amount of credit to the priority sectors. In February 1968, the National Credit Council was setup with a view to provide a forum for deciding priorities on all India basis. These measure were soon found inadequate and the Government thus resorted to nationalisation of major 14 banks. The extension of credit to small borrowers in priority sectors was test of success. In the past very little bank credit was available to agriculture. Aggregate finance to agriculture amounted to Rs.162.3 crore at the end of June 1969. Since then bank finance agriculture has increased considerably which is evident clearly from the fact that the outstanding bank credit to agriculture on March 28, 1997 was Rs. 30874 crore. Importance of small-scale industry in this country has been underlined from time to time on account of its employment potential. It's survival and growth, however, depends largely on the availability of finance from the organised banking sector. On March 28,1997 there

[1] . Misra S.K. Puri V.K.,"Indian Economy". pub. by Himalaya Publishing House Bombay. 1997. p. 767.

was an outstanding balance of Rs. 34113 crore. Among others, road and water transport operators, retail traders and small business, professional and self employed persons are some important categories of people who have considerably benefited since nationalisation. The amount of gain to this sector is clearly from the fact that the aggregate amount outstanding stood at Rs. 17001 crore on March 28,1997 as against Rs.23 crore on June 30, 1969.

Varde Varsha (1997)[1] in her paper entitled, "Rural Banking From Nationalisatoin to Rationalisation" examines that after nationalisation commercial

banks have succeeded in broadly achieving the targets set before the industry of achieving 60 per cent credit deposit ratio to rural areas, 16 per cent of total credit going to the agricultural, 40 per cent of the total credit going to the priority sectors, opening about 70 per cent of the branches in rural and semi-urban areas. This has helped in creating large-scale and wide spread presence of banking in rural areas, mobilising large resources and providing increased access to credit to rural population including small formers, small industries and weaker sections of he society.

Bains K S (1997)[2] in his paper entitled, "Some Thought on Rural Credit", explained that the lending to agriculture sector has been increasing since bank nationalisation. Now what the percentage should be 40 per cent in case of priority sectors, which is ok, or it need to be raised to 45 per cent or brought down to 35 %.

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1 . Subramanian K, and Velayudhanm T.K.,(edited) "Banking Reforms in India: Managing Change" published by Tata Mc Graw Hill Publishing Company, New Delhi, 1997, p. 432-440.
2 . Subramanian K. and Velayudhanm T.K. op.cit., Bains K S "Some Thought on Rural Credit", pp.530-536.

But, unless we have a target one can not work to a target. But what goes unnoticed is, we do not think that the lending to agriculture went up to from Rs.16000 crore to 21000 crores from 1993-94 to 1994-95 but, at the same time, the percentage of agriculture to total lending from 15.4 per cent to 13.8 per cent. That is, much larger funds went to urban sector or non-agriculture sector. The contribution of agriculture still remain at about 30-35 per cent. Finally the author suggested that a committee should be appointed to find out the credit needs of the priority sectors.

Mohapatra U C (1997)[1] in his paper entitled, "Rural Banking: For Sustained Profitable Growth", mentioned that after the nationalisation of commercial banks, the hitherto neglected sectors of the economy received much attention and financial helps from the banks. With an extensive branch network public sector banks can not afford to neglect this sector. In this article the author suggested that banker must reorient their attitudes and develop a positive outlook for neglected sectors to meet the emerging challenges.

Gujral N S (1997)[2] in his paper entitled," Harmonising Social Lending With Commercial Orientation", discussed that the banks were directed in March 1974 that the priority sectors lending should reach a level of 1/3 rd of their outstanding credit by March 1979.It was at this level that the concept of allocation of priority sector lending was added and this continues till today with certain modifications. In March 1980 the

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[1] Subramanian K and Velayudhanm T K op cit Mohapatra U C "Rural Banking For Sustained Profitable Growth". p 472-479

[2] Ibid

Government directed the banks that the percentage of directed credit to priority sectors should be raised from 33.33 per cent to 40 per cent by 1985 and sub-target for direct agriculture was fixed to 16 per cent of net credit to be achieved by March 1987. It was further raised to 17 per cent to be achieved by march 1987 and reached 18 per cent by March 1990.In this paper the author also mentioned the Narsimham Committee recommendations which redefined the concept of social lending and to rationalise the interest rate structure. The author suggested that the adequate credit must be available on time.

Chandra A S (1997)[1] in his paper entitled, "Rural Banking-Changing Scenario", mentioned the concept of lending to priority sectors which formed the backbone of rural economy. The financing of priority sectors by banks involved concessionality in interest rate. The author also pointed out the several changes in the priority sectors lending which included :(a) enhancement of small scale industries limits to Rs.60 lakh from Rs.35 lakh and increase in limit to Rs. 70 lakh in respect of ancilliary export oriented units, (b) the target of 18 per cent of net bank credit to agriculture had been made applicable, (c) bringing of housing loan up to Rs.2 lakh per borrower. (d) reduction in concessionality of interest rate on larger loans of priority sectors. The author suggested that the financial sector reforms initiated in the early 90's particularly for priority sectors, may have to carried further for effective credit system..

[1]. Subramanian K. and Velayudhanm T.K. op. cit., Chandar A S, "Rural Banking- Changing Scenario", pp.518-523.

Another paper entitled "State, Institution and Social Banking: A Theoretical Interpretation:, by **Kurien J (1997)**[1] pointed out about the social banking is an economic activity which is persuade in developing countries for ushering in social and economic change. The function of social banking is to channelise lending the loanable funds towards the socially desirable investments. The author also mentioned the reason that banks should consider social banking an indispensable service to the society rather than an unavoidable obligation. The author suggested that social banking must be remain an integral part of our economic planning and social development. Development is a process of enlarging people's capabilities and skills and bank have a distinct role to play in providing adequate and timely credit to dispossessed section of the society.

A paper entitled, "Evaluation Studies on Financing Weaker Sections" by **Khankhoje D P (1997)**[2] explained the involvement of bank in financing many activities under priority sectors. There is a need for the comprehensive evaluation of the performance of those lending activities at the individual bank level as well as the industry level. The Report of the Working Group on priority sectors opines that the individual banks need to make impact studies of the specific schemes financed by them. The report also mentioned that it was necessary that impact studies of financing in specific areas, covering all the schemes should be made on a continuous basis to

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[1] Subramanian K. and Velayudhanm T.K. op. cit., Kurien J "Sate Institution and Social Banking: A Theoritical Interpretation, pp.460-464.

[2] Subramanian K. and Velayudhanm T.K. op. cit., Khankhje D P. "Evaluation Studies on Financing Weaker Sections", pp. 490-499

ascertain the problems encountered in the preparation and implementation of those schemes. During the last few years concerted efforts have been made by commercial banks at the instances of refinancing agencies e.g. (NABARD) and credit regulating institution e.g. (RBI) to evaluate a large number inter-related projects undertaken by them as a part of their social intervention .At present, more than 350 evaluation study report are available which cover a wide range of activities and programme. These cane be classified into four categories such as; (a) Activity specific like poultry, sheep rearing, daring etc; (b) Target specific such as IRDP beneficiaries, small farmers, SC/ST, etc; (c) Scheme-specific, e.g. TRYSEM,SEEUY etc: (d) Area specific, viz. a district, a block, a cluster of villages etc. Financing the weaker sections of the society has its own peculiar features which the banks have experienced over the years. Finally the author suggested that the systematic evaluation of various lending programme is necessary for implementation to ensure efficiency and effectiveness.

Seth M L and Singh S P (1998)[1] in their book entitled, "Economic Planning Theory and Practice", mentioned that prior to nationalisation, an overwhelmingly large proportion of bank credit went to big businessmen, industrialist and hoarders. The small farmers, small industrialist, retail traders, road transporters small shop-keepers etc., were neglected in matters of credit, because they did not have any

1. Seth M.L. and Singh S.P. "Economic Planning Theory and Practice", pub. by Sultan Chand and Company, New Delhi, 1998, pp. 508-509.

tangible security to offer. Towards the end of 1965, a beginning was made to mould the credit policy of the commercial banks. With this objective a number of measures namely, credit authorisation scheme, social control over banking, National Credit Council etc. were taken. But these measures soon found inadequate and Government thus resorted to nationalisation of 14 major banks. No doubt, after nationalisation there had been a welcome change. Though major proportion of the bank credit still went to the organised sector as before, but the priority sectors had now come to receive greater share of bank credit. The amount of gain to priority sectors is clear form the fact that as against 14.6 per cent of the total bank credit in June 1969 (a) in March 1995 all commercial banks extended credit to priority sectors to the tune of 32.5 pr cent and (b) the public sectors banks to the order of 36.8 per cent. Amongst the priority sectors, the share of agriculture rose from 5.4 per cent in 1969 to 14.1 per cent in 1995, small-scale industries from 8.3 percent to 15.5 per cent, road and water transport operators from 0.2 per cent to 1.5 per cent, retail traders from 0.6 per cent to 2.3 per cent small business from nil to 1.4 per cent.

Another article entitled "Credit Support to Priority Sectors. A Macro Prospective", by **Mujumdar N A (1998)**[1] reveals that the priority sectors are critical to high and sustained growth of GDP. It should be the business of public sector banks

1. Majumdar N.A., "Credit Support to Priority Sectors .A Macro Prospective", Economic and Political Weekly, New Delhi, Vol. 33, (Jan. 24th, 1998), pp. 147-150

to support these sectors irrespective of whether there are credit targets or not. It also examines that the public sectors banks managed to achieved the credit target only in 1996 –1997, while credit to priority sectors at 41.7 per cent of net bank credit exceeds the target, the sub-target continued to remain unfulfilled. Credit to agriculture was at 16.4 per cent. What is more; the reform packages has affected adversely the priority sectors. In another area, namely, interest rates: with freeing of banks' lending and deposit rates, the new interest rate structure that has emerged has become highly regressive and is biased against priority sectors .It is therefore only appropriate that monetary and credit policies would need to be modified in such a manner that they are beneficent to the priority sectors. Priority sectors are and will continue to remain in the medium term, the bread and butter, both literally and figuratively in economic growth. Finally, the author suggests that the new interest rates structure is regressive and it would need to correct in such a way that it helpful to the priority sectors.

Shajahan K M (1998)[1] in his article entitled, "Priority Sector Bank Lending" explained the directed credit programmes followed by the banks during the post nationalisation period. Priority sector lending has been perhaps one of the most effective programmes. In 1969 banks provided only14.6 per cent of their total credit to the priority sectors with the percentage of credit disbursed to agriculture being 5 4

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1 Shahajan K M "Priority Sector Bank Lending ", Economic and Political Weekly, New Delhi, Vol 33, Oct 17-24, 1998, pp 2749-2756

per cent only. In 1991, 40.9 per cent of net bank credit was advanced to priority sectors and total credit to agriculture even though below the prescribed level of 18 per cent was 16.4 per cent by 1991. He also pointed out about the banking sector reform initiated in 1991,as a part of new economic reforms have had a negative effect on priority sector lending of banks in the country. As a result, credit disbursed to priority sector have been continuously falling short of the stipulated of 40 per cent. The author suggested that the lending to the priority sectors should be target oriented.

Nasir S (1999)[1] in her article entitled, "Commercial Banks Funneling Funds For Farm", has described that the credit flow to agriculture sector from commercial bank have risen considerably, following the apex bank's priority sectors norms. She also explained the role of priority sectors lending. Agriculture is of paramount importance in making the self sufficient in food production. She stated that Indian agriculture needs mechanisation. In earlier times the banks did not offer credit for agricultural activities, sensing the risk involved. She suggested that loan should be sanction for those project which are feasible and viable technically.

Varshney P N (1999)[2] in his book entitled "Indian financial System and Commercial Banking" examined that the nationalisation of major Commercial banks was intended

1.Nasir S, "Commercial Banks Funneling Fund for Farm", Agriculture Today, New Delhi, Jan-Feb. 1999, pp.21-22

2.Varshney P N, "Indian Financial System and Commercial Banking", pub. Sultan Chand & Sons, New Delhi, 1999, p B-13 to bring about banking reforms for reeling consequence. Since July 1969. it has opened up new horizons, broadened and deepened the base of banking. The most significant reforms, since the banks' takeover have taken place in the lending policies and practices, which have been tailored to meet the needs of hitherto neglected sectors of the economy. Before the experiment of social control, banks had hardly paid any attention towards elegance to agriculture and small industries. Small borrowers coming from vast self-employed sectors were not at all served by the banking system. After the banks nationalisation, financing of agriculture, small industries, and self-employed persons gathered considerable moment and a number of special credit scheme have been evolved for this purposes. At the end the author mentions, that as a result of persuasion and guidance of the Central Government and Reserve Bank of India, the community has adopted new concepts, techniques and criteria for lending to the priority sectors.

An article entitled, "Priority Sectors Lending versus Better Asset Management", contributed by **Dadhich C L (1999)**[1] holds that with the changes in the definition of priority sectors since the introduction of banking sector reforms, the ratio of priority sectors advance to net bank credit moved from 35.9 per cent at the end of March 1993 to 91.8 per cent at the end of March 1998. He also mentioned that the

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1.Dadhich C L, "Priority Sectors Lending Versus Better Asset Management", The Financial Express. New Delhi, July 13, 1999, p. 6

broadening priority sectors has immensely helped bank to achieve the target of 40 per cent of net bank credit to priority sectors.

Nais T S (2000)[1] in his article entitled, "Rural Financial Intermediation and Commercial Banks: Review of Recent Trends" pointed out that before nationalisation of commercial banks, the responsibility to meet the credit needs in rural areas entrusted primarily with the cooperative banking sector until about the mid 1960s. Till then the presence of commercial banking in rural areas was mostly in agri-business and marketing. But after nationalisation one of the major objectives of nationalisation was to direct the credit to priority sectors. The Reserve Bank asked the nationalized bank to increase at least 40 per cent of their advances to the priority sectors (of which 18 per cent for agriculture and 10 per cent for weaker sections) was an important stepping in the direction of asserting the developmental role of banks.

An article written by **Shivamaggi H B (2000)**[2] entitled, "Reforms in Rural banking: Need for Bolder Approach" explained that rural banking in India has made tremendous qualitative progress. On the whole, it has to be admitted that policy makers have yet to arrive at a banking structure and operational system, which suit agriculturist credit and saving needs and at the same time promote modern

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1.Nais T S, "Rural Financial Intermediation and Commercial Bank: Review of Recent Trends" Economic and Political weekly, New Delhi, Vol. XXXV, No. 5, Jan.29-4 Feb. 2000, pp. 299-306

2. Shivamaggi H B, "Reforms in Rural Banking: Need for Bolder Approach", " Economic and Political weekly, New Delhi, Vol. XXXV, No. 20, Jan.29-4 Feb. 2000, pp. 1714-1718.

agriculture. Credit to agriculture and small-scale industrial sector has always commanded special attention both in view of their recognised importance in our national economy and especially in relation to their employment potential, income redistribution and support to the balance of payment. He also mentions that overall annual agriculture growth rate, which was 5.2 per cent in he eighties; fell to 2.6 per cent in the nineties.

Another article entitled, "India's agricultural Development Policy" by **Vaidyanathan A (2000)**[1] discusses that pressure for libralisation and globalisation of Indian agriculture are growing. The focus is now on three major issues: (1) Further reduction and eventual elimination of restriction on both internal and external trade in agricultural products (2) Reduction and eventual elimination of inputs subsidies (3) Putting in place an intellectual property rights regime for seeds and plant varieties and align transitional agri-business corporation to operate freely in the country. He also explains that after independence the country has achieved and sustained historically unpreceding growth of output. Output growth has been well ahead of population. Expansion of cultivated areas has virtually come to stop in recent years. Growth in yields per hectare of cultivated are has become increasing important and is now the predominant source of growth.

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1. Vaidyanathan A , "Agricultural Development Policy", Economic and Political weekly, New Delhi. Vol. XXXV, No.20, May 13-19, 2000, pp. 1735-1741.

Bimal J (2000)[1] in his article entitled, "Monetary and Credit Policy for the First Half Years 2000-2001" mentioned that following the Report of the Gupta Commercial on agricultural credit, a number of measures have been taken to improve credit delivery system for agriculture. Introduction of composite cash credit to cover the farmers' production requirements, introduction of new long procedures. At present, a ceiling of 5 lakh has been prescribed for classifying advances for financing distribution of inputs for the allied activities, such as cattlefeed, poultryfeed, etc., as direct advances for agriculture. It has been decided to enhance receiving to rupees 15 lakhs.

Ravillion M (2000)[2] in his article entitled, "What for a More Pro-Poor Growth Process in India?" examine that in agricultural productivity will remain to crucial to progress in attacking poverty in India. Agricultural growth reduces rural poverty directly, and it fasters the conditions for pro-poor growth in the (urban and rural) non-forms sectors. Without higher and more stable agricultural growth, it will be hard to restore India's movement in poverty reduction. At the end he mentioned that agricultural, infrastructure and social spending (specially is lagging rural areas) will need to get higher priority before the poor will be able to participate in India's post – reform economic growth.

1.Bimal J, "Monetary and Credit Policy for the First Half Year 2000-2001", The Banker, Vol. XXXXVI, No. 2, April, 2000, p. 24

2..Ravallion M, "What is Need for a More Pro-Poor Growth Process in India", " Economic and Political Weekly, New Delhi, Vol. XXXV, No.13,. 2000, pp. 1089-1093.

Machiraju H R (2000)[1] in his book entitled, "Indian Financial System" mentioned that after bank nationalisation in 1969, the distribution has credit has been achieved through of fixation of certain specific targets and policies in case of priority sectors. Public sector banks have been required to help various sectors, agricultural, small scale industries, road and water transport, operators, retail traders, small businessman, professional and self employed persons and other weaker section. At the end he also mentions that banks faced true constraints in assisting the priority sectors due to paucity of viable schemes, lack of trained staff at the discussion – making level and unsatisfactory recovery performance of priority sectors loans

Objective of the Study:

This work has been undertaken to analyse the experience gained by commercial bank and State Bank of India in social banking and priority sector lending during the thirty years (1969-1999) since nationalisation of major banks .The following are the objectives of the study.

1- To study the historical perspective of commercial banks and State Bank of India lending in India.

2- To understand and analyse the concept of priority sectors development.

1.Machiraju H R, "Indian Financila System", pub. Vikas Publishing House. New Delhi, 2000; p.3.20

3- To determine the width of success of priority sectors development.

4- Why are commercial banks and State Bank of India lending to priority sectors? How the priority sectors development will accelerate the process of development in India.

5- To highlight the main problems faced by the commercial banks and State Bank of India in extending credit to priority sectors.

6- To suggest ways and means to increase the role and contribution of commercial banks and State Bank of India in development of Indian Economy.

7- To evolve a strategy for future lending to priority sectors by commercial banks and State Bank of India.

Hypothesis:

The present study seeks to test the following hypothesis:-

1. The commercial banks and State Bank of India are expected to be more efficient to provide adequate finance to priority sectors.

2. The appropriate strategies are needed to be evolve for further lending targets of commercial banks and State Bank of India.

3. Priority sectors lending leads to economic growth.

4. To what extent the priority sectors lending at concessional rates have adversely affect banks' profitably?

Scope of the Study:

In this study, an effort has been made to critically analyse the emerging trends in commercial banks' lending to priority sectors since 1969 to 2000 (31 YEARS). This is a fairly long period covering 30 years. Since bank nationalisation, commercial bank adopted a programme, so it is a modest attempt to do the research about the emerging trends in commercial banks lending to priority sectors. The study has covered some of the vital aspects such as lending trends, segments, direction and problems arises which affecting the lending of commercial banks. However, it is claimed that all those aspect which have been covered in the study provided broad base and useful guidelines to all concerned, such as commercial bank, State Bank of Indian, and Government. The suggested measures in the study would go a long way in enlarging the role of priority sectors lending in economic development of India.

Need for the Study:

The changing socio-economic milieu of the country, has permeated to reform emerging trends in commercial banks lending to priority sectors. The successive Governments introduced different lending policy of commercial banks including State Bank of India to the priority sectors, and given the direction of opening more and more branches in hitherto neglected rural/backward areas with the objective of achieving lending targets. This topic hence deserves importance to find out the practical problems of banks and priority sectors. The findings and recommendations of the study will help in extending credit to priority sectors in their development .It would also helpful for the management of commercial banks to over come their existing policy of lending .No doubt several studies on the subject have been undertaken by bank/group of banks. But all the same have been of an adequate nature and therefore, the need for such study has been felt.

Research Methodology: (3rd class, very booring???)

The primary data will be gathered by discussion, interviews and opinion of banking personnel and borrowers. In conducting research I mainly rely on secondary sources such as journals, reports, periodicals, Governments publications, and other literature etc. for making an analysis and interpretation of data .The secondary data serve as a tool to study the emerging trends in commercial banks lending to priority sectors. The information and data so collected will be systematically be arranged analysed for arriving at certain conclusion with regard to trends of priority sectors by lending policy of commercial banks and then all-round development and growth in the context of Indian economic scene.

The statistics related to various aspect of commercial banks lending and priority sectors development will derived from annual reports accounts of all commercial banks The work of presentation of statistics, their analysis, their interpretation the derivation of conclusion and formulation of policies will be done for the most on the basis of official data.

Framework of the Study:

This work is divided into seven chapters. The first chapter deals with the introduction of the study. It provides the detailed review of literature examining previous studies on priority sectors lending. It also entails the need for the study, scope, and objectives of the study and research methodology. The second chapter presents the conceptual framework of commercial bank and priority sectors. It also mentions the reason of assigning priority to these sectors. The third chapter is the study of emergence of social banking in India and causes of socialisation. The various schemes started by Government and their effect on lending policy of commercial banks are analysed. It also described the amount of money, the target laid down by the Government in various years/plans and its achievement. The fourth chapter gives the detail about the growth patterns in priority sectors lending by commercial banks i.e. sector wise and whole India. The fifth chapter, examine the role of State Bank of India in financing to priority sectors. It also analyse the trends and ways of financing to these sectors and its success under different target laid down in various schemes. The sixth chapter is the study of problems faced by the banks in financing the priority sectors. This chapter also throws light on the problem of commercial bank related with amount of money to be disbursed to priority sectors in various plans. The final chapter contains a summary of conclusion and recommendations for the study. The recommendation would have for reaching effects on policies of commercial banks emerging trends for lending to priority sectors. In this chapter an attempt has been made to estimate the need of priority sectors in various segments. The main purpose of this chapter is to suggest an action plan to make priority sectors lending healthy and effective.

CHAPTER – II

PRIORITY SECTORS LENDING:

A CONCEPTUAL FRAMEWORK

CHAPTER - II

Priority Sectors Lending: A Conceptual Framework

The preceding chapter has discussed the introduction, objectives of the study, review of literature, scope, significance, research methodology and framework of the study. The present chapter makes an attempt to highlight the concept of priority sectors lending. It also proposes to discuss in detail the various segments, which relates to priority sectors.

In fact the term "priority sectors" was coined by Late Shri. Morarji Desai, the then Dy. Prime Minister and Finance Minister of India in Lok Sabha. The concept of priority sectors was evolved on the basis of what was considered to be hitherto, neglected sectors of the economy and it was formalized in 1972 in the light of the report submitted by Informal Study Group on Statistics relating to advances to priority sectors constituted by the Reserve bank of India in May, 1971. These, hitherto, neglected sectors were given due priority not because of their tremendous potential of employment generation and various other benefits they confer on the weaker sections but also because of their significant contribution to the national income. Thus priority and neglected sectors include those areas of economic activities which are socially desirable but have been inadequately financed or wholly neglected by the commercial banks earlier.

The concept of "priority sectors is mainly intended to ensure that assistance from the banking system flows in an increasing manner to those sectors of the economy which, though account for a significant proportion of the national product, have not received adequate support of institutional finance in the past. The major objective of bank nationalisation was to make banks more responsive to the needs of national developing pursuance of plan objectives of amelioration of poverty and modernization of agriculture and small industries, and to aspiration of agriculture and small industries, and to aspiration of the common man. In consonance with this policy, the banking industry embarked upon the new phase of social banking, requiring reorientation of credit policy[1].

As a matter of fact, the concept of priority sectors advances was formulated as early as in1968 before the social control over the commercial banks was launched. The principal objectives of the scheme were to achieve a wide spread of bank credit, avoiding concentration and directing a larger volume of credit flow to other neglected sectors. An enunciation of the need to channelise the flow of credit in the economy is larger interest of the country – known as the priority sectors.

The genesis of the concept of priority sectors may be traced back to the setting up of lending targets for commercial banks by the National Credit Council. This Council determined targets in respect of two important priority sectors viz., agriculture, and small-scale industries.

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[1] Suneja H R, "Management of Bank Credit", pub. Himalaya Publishing House, New Delhi, 1992, p 174

During the discussion of the Group, it was transpired that although the priority sectors advances were being classified by the banks generally in accordance with the instructions issued by the Reserve Bank of India in February, 1972, there was still some lack of uniformity in such classification particularly in regard to retail trade and transport operators. Some banks included in that category only those advances which were covered by the Deposits Insurance and Credit Guarantee Corporation's (DICGC) definition while others classified all such advances which satisfied the general description of such categories given to the guide lines of the RBI referred to the above and / or those given in DICGC definition without, however, taking into consideration of ceilings fixed by DICGC for such categories in respect of their turnover, cost of original investment, quantum of advances etc. for guarantee cover. As the performance of banks interest in the matter of advances to priority sectors was often compared, a lack of uniformity in the classification of the data had obviously vitiated such comparision. Moreover, banks were required to comply with certain targets in regard to development of credit to priority sectors. The assessment of such compliance with the targets was also a meaningless exercise, unless the data were compiled on a uniform basis. The need for uniformity in the items reported under the priority sectors lending was thus obvious.

The deciding factor for an advance to be a priority sectors advance the purpose for which the advance was given rather than the security offered. Advances given to these sectors against the banks deposit were also treated as priority sectors advances

In poverty ridden society the stress should be on viable project rather than on collateral security. The concept of class banking was sought to be replaced by the concept of mass banking and the new banking priority was geared to the extension of banking facilities to large number of small people[1]. It was sought to be attained through large deployment of credit to the hitherto, neglected sectors of the economy. For the sake of clarity it was suggested that the use of the term priority sectors should however, be restricted to aggregate priority sectors. In November, 1974, public sectors banks were also advised that their priority sectors lending should reach a level not less than one-third of their outstanding credit by March 1979. Private sectors banks were also advised in November, 1978, to undertake similar responsibilities and lend at least one-third of their advances by the end of March, 1980. In 1981 Banks were, again asked to raise this proportion up to 40 percent by March, 1985. The priority sectors were qualified for concessional treatment as regards commercial banks credit at concessional rates of interest. The large proportion of agriculturists and small entrepreneurs being poor, they did not possess the capacity to bear the impact of the full rate of interest.

From the year 1978, the Government of India and the Reserve Bank of India directed banks not to insist or demand any collateral security or guarantee in the case of crop loan up to Rs. 1000 except demand promissory note/loan agreement. For crop

[1] Patel S G, op.cit.. p51

loan from Rs. 1001 to Rs. 5000 the security was the hypothecation of crops and mortgage of land, which was to be at the discretion of the bank.

As the guidelines issued by the RBI did not specify any ceiling on limits, the finance extended by the banks to the more affluent sectors within the priority sectors was also included under these categories. There was a need to ensure that the bank advances were given increasingly to the comparatively weaker and more under privileged sections. The Reserve Bank of India constituted a Working Group on the 13th March 1980, under the chairmanship of Dr. K.S.Krishnaswami, the then Dy. Governor of the RBI to give suggestions for the implementation of the above decisions. The Working Group submitted its report on the 22nd April 1980. On the basis of the recommendations, the RBI introduced a concept of weaker sections with certain sub-targets for lending them within the main components, i.e., agriculture and small-scale industries of priority sectors.

The meaning of priority sectors was elaborated at the conference of custodians of the nationalized banks held in New Delhi in July 1970 by the then Finance Minister in the following words. "When we talk of priority sectors the emphasis is on the needs of the common man, the man who is engaged or is willing to be engaged in a productive endeavors which is socially useful and economically viable but is handicapped for lack of finance on reasonable terms"[1].

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[1] Sriniwasan, R. op.cit., p.46

Financing of priority sectors of the economy had been on of the strategies of the commercial banks in their developmental roles in India after nationalization. Previously, though there were certain regulations, they did not help in optimization of production and blossoming of new entrepreneurship in the country[1]. A few years back some of the sectors of the economy were cut of the purview of the banks. These were too important to be ignored considering their economic magnitudes and social relevance, viz., agriculture and the people with the modest means. In the changed context the hitherto neglected sectors were viewed as priority sectors which ordinarily did not use bank finance on sizeable scale. Social control of banks marked a turning point in the history of commercial banks and initiated a major change in the banking policy.

The resources of the banking industry were supplemented by the refinancing facilities from the National Bank for Agriculture and Rural Development (NABARD) and the Industrial Development Bank of India (IDBI). The bank also got technical assistance from the Agriculture Finance Corporation (IFC), which assist them by giving technically feasible and economically viable schemes. The Rural Electrification Corporation (REC) facilitated commercial banks' efforts of developing farm sectors.

The supporting services were initiated by the Government to ensure safety of funds advanced by banks. The Deposit Insurance and Credit Guarantee Corporation

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[1] Financing of Priority Sectors Cover Feature, The Banker, New Delhi, Vol. XXX, No.5, July 1983; p.45.

(DICGC) was set up in 1971 to provide the guarantee cover on loans through a variety of schemes such as (a) Small Loans Guarantee Scheme, (b) Small Loan (Financial Corporation) Guarantee Scheme, and (c) Small Loan (service cooperative societies) Guarantee Scheme.

The Prime Minister announced the New 20 Point Economic Programme on the 14th January 1982. At the instance of the Government of India, the RBI constituted on the 11th March 1982 a Working Group under the chairmanship of Shri A. Ghosh to give recommendations for active participation of banks in the implementation of the new 20-point programme. The Working Group submitted its report on 17th June 1982. It did not suggest any change in the overall target of the 40 per cent of net bank credit for the priority sectors advances to be achieved by the end of March, 1985. However, the report made recommendations for modifications in certain sub targets of different segments of the priority sectors and accordingly, certain sub targets of priority sectors and definitions of the weaker sections were revised by the RBI. The various norms then in operations for each Indian Commercial Bank were meant to increase the flow of credit to certain important segments of the economy and weaker sections of the community.

There was an increasing emphasis on the need to ensure that bank advances within the priority sectors were increasingly diverted towards the comparatively weaker and under-privileged sections of the society viz., the small and marginal farmers, landless labourers, artisans engaged in village and cottage industries, beneficiaries of Integral Rural Development Programme (IRDP), Scheduled Caste and Scheduled Tribes and beneficiaries covered under Differential Rate of Interest Scheme[1].

The Reserve Bank of India (RBI) and the Government of India had generally accepted the recommendations of the Working Group on the priority sectors lending and implementation of the 20 points economic programme by the commercial banks, both the public and private sectors. It was felt that it would go a long way towards enabling the banking systems to fulfill the basic objectives of the 20 points programme viz., efficient production and distribution of essential goods and services to the community and better distributive justice by raising the income and standards of living of the weaker sections of the society.

The Reserve Bank of India (RBI) had emphasised the banks to take care to see that suitable viable schemes be formulated in consultation with the State development agencies for all the beneficiaries under the 20 points economic programme identified by the State agencies and adequate finance provided for their implementation. To ensure proper coordinated efforts on the part of the banking system in this regard banks were required to incorporate such schemes in the District Credit Plans.

In order to cope with the large number of borrowers involved while continuing to provide direct assistance to the various categories of beneficiaries under the

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[1] Patel S G, op.cit., p.54

programme, it was suggested that the banks might also route credit to such beneficiaries through state sponsored corporation, agencies, exclusively set up for the benefit of such persons. Credit might also be routed through other state sponsored corporations/agencies provided to specific schemes to be financed by banks through such agencies which were exclusively for the benefit of weaker sections[1].

In the interest of the uniformity and to ensure that the banks' advances are given increasingly to the comparatively weaker and more underprivileged sections, the existing definitions of some of the categories in the priority sectors were redefined and it was decided to include in that sectors certain additional items like consumptions credit and also housing loans for the poor representing mainly assistance to the beneficiaries under 20 point programme. While providing loans for consumption and housing scheme for the poor / slum clearance etc, banks might evolve schemes to provide gainful employment to such dwellers and allotties of house sites in various activities under the priority sectors in order that those person were effectively rehabilitated.

Financing for higher education and creating infrastructure for industrial development viz., industrial estates were also treated as priority sectors. At certain period when food procurement was treated as important in the national interest, advances for food procurement were also mentioned in the banks achievement under priority sectors advances. In most of the official documents, however advances for

[1] Patel S G, op.cit., p.56

food were excluded from total advances while highlighting the priority sectors advances under agricultural advances, the allied activities were also included while plantation were excluded.

The Government put emphasis on the commercial banks' role in the priority sectors advances as was reflected in the policy measures specified from time to time from 1969 own wards. Policy directives for strengthening the rural and semi urban banking structure and setting specific targets for priority sectors advances were issued. The Reserve Bank of India's licensing policy was to open bank branches in under banked areas on priority basis. This policy aimed to achieve coverage of 17000 population per branch office in rural and semi urban areas by the end of March 1985.

Definition:

It has been in the post-1969 period that priority sectors lending and social banking concepts have been crystallized and adopted for the purpose of credit deployment. The term 'priority sectors' indicates those activities, which have national importance and have been assigned priority for development. Hence, the adoption of priority sectors concept for the purpose of bank lending reflects the effort to synchronize the lending activities of each bank with the national priorities. These sectors, in particular agriculture, small-scale industries and other small business, were the neglected sectors and for the purpose of bank credit and they have been categorized as priority sectors.

The word "priority sectors refers to those segments of the Indian economy whose development is essential both for the economic and growth of the country and attainment of social justice. These sectors had received only an indifferent attainment of the private sectors commercial banks because financing of these sectors was neither profitable nor in conformity with sound banking principles. Primarily these sectors include agriculture, and small-scale industries[1]. But in the wake of 'social control' over commercial banks in 1969 with a view to improving the economic status of small borrowers and creating avenues of employment, the scope of priority sectors was extended to cover fields such as retail traders, professionals, technically qualified and other educational young people, who would have to stand on their own feet, but for finance. Thus, while certain segments have a 'priority claim by virtue of their direct economic significance, others have priority claims by virtue of their social as well as economic significance.

The developing countries aim at achieving simultaneously their goals of higher growth rate and distributive justice. The conflict between economic growth and distributive justice has to be eliminated by suitably amending the developmental strategies particularly with reference to the weaker section of the society. Efforts should be made in this direction on war footing. In the last fifteen years India has launched a multipronged attack on the multi-dimensional problem of poverty. One of the ingredients of the anti poverty programmes is priority sectors lending by

[1] Ahmad K. M, "Banking in India" pub. Anmol Publisher, Delhi, 1992, p.89.

commercial banks. Priority sectors include those areas. which were neglected before nationalisation of banks in July 1969. After nationalization banks were required to progressively participate in the development of agriculture, small-scale industries and help the rural and urban poor to raise their stand of living by providing them liberal finance for starting gainful self-employment projects.

At the second meeting of the National Credit Council in July 1968, the priority sectors was defined to include only two activities, agriculture and small scale industry. A list indicating the type of advances which would be eligible for compliance with the lending targets for these sectors was sent out by RBI to the banks. For small-scale industries no separate guidelines were issued. But it was indicated that direct loans granted to road transport operators would qualify for compliance with lending targets along with small-scale industries. Financing of industrial estates was also to be included under small-scale industries.

While stipulating lending targets for agriculture and small-scale industry, the Finance Minister had specifically stated that the importance of priority sectors should not make us unmindful of the requirements of other important sectors. When we removed credit gaps, which undoubtedly exist in the priority sectors, we should not in the process credit gaps in other areas. The legitimate needs of our large and medium industries have to be met. This is true not only of industry but also of trade and many other tertiary activities. This reflects the emphasis given to achieving balanced flow of credit among different sectors of the economy. It must be noted that the credit policy that developed later sought to link credit to the end-use and need.

Composition:

The composition of the priority sectors remained somewhat vague even after nationalisation. As a result, there was a wide variation in respect of the compilation of priority sectors lending data among the banks. It was in 1972, on the basis of a report submitted by the Informal Study Group on statistics relating to priority sectors constituted by RBI that a more comprehensive definition of priority sectors came to be adopted. The definition, accepted on the basis of the Study Group's recommendations, includes the following:

- Agriculture-direct and indirect
- Small scale industries
- Road and water transport
- Retail traders
- Small business
- Professional and self-employed persons.
- Educations

The above mentioned composition remains virtually unchanged, except for the addition of housing for weaker sections and pure consumption loans. Following the adoption of the above composition of priority sectors, guidelines were issued by

Reserve Bank of India indicating the scope and items to be included in the priority sectors for the purpose of bank credit. But the guidelines indicated only the general description of advances.

During the early eighties, following the enunciation of the 20 Points Economic Programme and the Integrated Rural Development Programme, the composition of priority sectors was reviewed by the Working Group under the chairmanship of Dr. K. S. Krishnaswamy, the then Deputy Governor of RBI. The Working Group made an incisive analysis of the factors that chocked the flow of credit to the hitherto neglected sectors and came to the conclusion that:

(a) There was a lack of uniformity in the classification of the priority sectors; and
(b) That the finance extended by the banks to the more affluent sections were included with in the priority sectors, which was not justified.

The inclusion of a particular category in the priority sectors confers certain specific advantages to the borrowers not only in the matter of availability of credit but also in the terms and conditions on which such credit is made available. Hence, the Working Group suggested that if the concept of weaker section, in the priority sectors is accepted, the concession that are being offered to the priority sectors as a class could be credited to meet the needs of the weaker sections.

While endorsing the need for continued preferential treatment to the priority sectors in bank credit, Working Group has given categorical advice that the maximum benefit should be invariably the beginning of the emergence of weaker section as a distinct sub-targets for bank lending for the later.

The Group had endorsed the existing composition of priority sectors for the purpose of lending targets. While experts were considered part of priority sectors, these sectors had not been included for the purpose of lending targets to be achieved by banks, except the credit extended to small scale industries. The rationale for the exclusion was that while bank assistance to the neglected sectors comprising agriculture, small scale industry and exports, though a national priority area for promoting growth had been traditionally the preserve of the more affluent urban based sections. But in view of the contribution of exports to foreign exchange earnings, it has all along been enjoying credit at concessional interest. So, for motivating exports, the twin incentives of interest subsidy and refinance have been provided.

Making a review of the performance of the priority sectors, the Working Group observed that the ratio of agricultural lending to total advances was going up by one per cent and expected the same trend to continue on the assumption that banks would be actively participating in the Integrated Rural Development Programme. It should, therefore, be possible for them to step up their credit to agriculture to the level of 16 per cent by March 1983 and go beyond this ratio after March 1985. According to the projections, the agricultural lending of banks as a ratio of total bank credit would improve from 11.8 per cent in 1979 to 16.9 per cent.

It was suggested that in view of the position that agriculture occupies in the national economy, at least 40 per cent of priority sectors credit should be extended to the agricultural sectors. This target was framed at a time when the performance of banks in the matter of agricultural credit varied substantially between 8 and 28 per cent of total advances. It was felt that fixation of target of 40 per cent of priority sectors credit or 16 per cent of total credit was justified so long as it was recognized that this limit would only be a minimum and would not place an "embargo on a bank to step it up further if its operational strategies and potential of the area of its activities warranted such an increase.

The need for identifying weaker section within the priority sectors was felt in order to ensure a fair proportion of credit allocation. The Working Group recommended that the advances to the small / marginal farmers and agricultural labourers, collectively called weaker section, should have a share of 50 per cent in direct credit.

Further refinements in the sub-targets were introduced in 1982. This revision emanated from the meeting of Chief Executives of banks with the Finance Minister, at which it was decided to set up a Working Group under the Chairmanship of Shri A.Ghosh, former Deputy Governor of the RBI. The objective of the Group was to review the existing targets and sub-targets of priority sectors lending with reference to the needs of the weaker sections and target group under poverty elevation programmes and the new 20 Points programmes. It is worth recalling that the statement of Late Prime Minister Mrs. Indira Gandhi regarding the implementation of 20 Points programmes. The overall target of or priority sectors lending at 40 per cent have continued unchanged since 1980. The direct lending target for agriculture has been revised to 16 per cent to be achieved by March 198, and further to 17 per pent set for 1989 and again to 18 per cent to be realized by March 1990. These increases have been made more as administrative decisions than on the basis of any systematic appraisal.

The credit pattern of banks has under gone remarkable change in terms of functional and geographical coverage as a result, of the stipulation of lending targets. The target setting process has compelled banks to increase their exposure to small borrowers and neglected sectors like agriculture[1]. The performance and achievements of each bank in respect of priority sectors lending and rural credit came for review at meetings with the Finance Ministry and Reserve Bank and at forums like Regional Consultative Committee, District Consultative Committee and State Level Bankers Committee. Such reviews have provided a measure of compulsion for individual banks to make vigorous efforts to improve their performance. The result has been impressive, as banks have achieved or surpassed most of the targets within the stipulated time frame.

The analysis of various policy devices initiated for promoting priority sectors lending by banks indicate that in the initial year after nationalization, the banks could

[1] Srinivasan R. op.cit , p.50.

take advantage of various measures like credit guarantee scheme. The concessional rate of lending has increased phenomenally since then, while the possibilities of lending to non-priority sectors borrowers has been narrowing due to pre-emption[1].

During more than three decades of nationalization, the banking sectors has responded effectively to the direction and target set for it taking effective steps in areas like organization, control mechanism, manpower planning. Considerable experience of lending to small borrowers has been gained. Expertise has been developed for meeting the challenges of functional diversification and mass banking. The banks have developed capabilities of delivering credit, which has enabled them to achieve the targets. But credit is only one of the several inputs for successful implementation of a project. The absence of other complementary inputs and linkages has resulted in uneven benefits generated from bank credit, attention to the quantitative achievements in the sphere of priority sectors lending and the qualitative deficiencies that have cropped up as well as the measures for overcoming them are examined in the following pages.

Segments of Priority Sectors:

The items included in the different segments of priority sectors such as agriculture, small scale industry services sectors are as under:

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[1] Srinivasan,R, op.cit., p.52.

1. Agriculture:

(I) Direct Finance to Farmers for Agricultural Purposes. The loans provided directly to farmers for raising / increasing crop production through short term and medium term loans against the activities arranged sectors wise are as under.

(A) Short Term Loans:

(a) Crop Loans

(i) Loans for raising crops / crop production.

(ii) Advances up to Rs. 25000/- to farmers (who availed crop loan) against pledge / hypothecation of agriculture produce (including warehouse receipts) for a period of not exceeding 6 months.

(b) Traditional Plantations:

The farmers having maximum land holding up to 20 acres can avail finance against traditional plantations of Tea, Coffee, Rubber and Spices.

(c) Non-traditional plantations:

(i) Non-tradition plantation

(ii) Horticulture

(d) Payment of charges:

(i) Charges for hired water from wells / tubewells, canal water charges.

(ii) Maintenance and upkeep of oil engines, electric motors.

(iii) Payment of labour / electricity and marketing charges, development, service charges of to agro custom units etc.

(e) Activities Allied to Agriculture:

Loans granted as working capital to acquire replenishable stocks for allied activities such as dairying, poultry, fishery, piggery, rearing of animals etc

(B) Medium and Long Term Loans:

Loans provided directly to farmers for increasing productivity / production and development needs. The activities covered under the sectors are:

(a) Purchase of Agricultural Implements and Machinery

(i) Purchase of agricultural implements: Iron ploughs, harrows, hose, land-levelers, bundfarmers, handtools, Sprayers, dusters, hay-press, sugarcane crushers, thresher machines, etc.

(ii) Purchase of farm machinery: tractors, drillers, power tillers, tractor accessories viz., disc, plough, seed distributor etc.

(iii) Purchase of trucks, bullock carts and other transport equipments, etc., to assist the transport of agricultural inputs and farm products.

(iv) Purchase of plough animals

(b) Irrigation:

Loans raised for construction and installation for the development of irrigation potential.

(i) Construction of shallow and deep tubewells, tanks etc. and purchase of drilling units.

(ii) Electric motors and pumps, boring of wells, electrification, deepening/clearing surface wells (open and dug wells) and turbine pumps.

(iii) Fields channels (open and under ground) through pipes concrete etc. lining of field channels and covering of channels (to save evaporation and percolation losses).

(iv) Lift irrigation project (in the farm or for the farms).

(v) Sprinkler and drip irrigation system.

(c) Reclamation and Land Development Schemes:

(i) Bunding of farm lands, leveling of land, terracing, conversion of dry lands into lands which can be irrigated.

(ii) Development of farm drainage.

(iii) Reclamation of soil lands and ravine lands.

(iv) Reclamation / prevention of salinisation of lands.

(v) Purchase of bulldozers.

(d) Construction of Farm Buildings and Structures

(i) Bullock sheds, implements sheds, tractor and truck sheds.

(ii) Farm stores, etc.

(e) Construction and running of Storage Facilities

Construction and running of warehouses, godowns, silos and cold storages.

(f) Production and Processing of Hybrid Seeds

(g) Horticulture:

Loans raised to develop plants of horticulture (orchards of shrubs / trees e.g., apple, grapes, mangoes, citrus, guavas, sapota, litchies etc.)

(h) Plantations:

Loans raised to develop plantations.

(i) All traditional plantations e.g. coffee, tea, rubber, spices etc.

(ii) All non-traditional plantation like medicinal plants, zozoba shrubs (being used to restricts desert development mainly its seeds yield oil which is being used for density maintenance of aeroplane fuel and cosmetics) etc.

(i) Forestry:

The finance raised to develop commercial and social forestry

(i) Commercial Forestry Loans given to farmers to develop forest plants at their farms e. g. eucalyptus, populous, deodar, pines, acacias etc.

(ii) Social Forestry loans to individual / group of farmers to develop Waste Government lands for development of nurseries, trees / shrubs, forest plants etc.

(C) Activities Allied to Agriculture:

Loans disbursed to develop / maintain the under-noted activities inclusive of breed development (except for race horses) and creation of structures, machinery / equipments required for the activities.

(a) Diary, poultry, fishery, bee-keeping, sericulture, ducker, forgery etc.

(b) Animal Husbandry: Rearing of Sheep, Goats, Camels, Horses, Ponies, Peggery, Cattle etc.

(c)Biogas Plants

(II) Indirect Finance to Agriculture:

(A) Credit for financing the distribution of fertilizers, pesticides, seeds, etc. However, under the new information system, the guidelines for classification state that only credit for financing the distribution of fertilizers, pesticides and seeds through co-operatives and other state sponsored organizations, irrespective of credit limits should come under "Distribution of fertilizers and other inputs". Advances granted to private retail traders (subject to credit limits) should be reported under Retail Trade.

(B) Loans to Electricity Boards for reimbursing the expenditure already incurred by them for providing low tension connections from step down point to individual formers for energizing their wells.

(C) Finance for Hire-purchase scheme /arrangement, for agricultural machinery and implements.

(D) Advances to custom service units managed by individuals, institutions or organizations who maintain a fleet of tractors, bulldozers, well-boring equipment, threshers, combines, etc. and undertake work from farmers on contract basis.

(E) Loans to individual, institutions or organization / firms who under take spraying operations.

(F) Loans for construction and running of storage facilities like warehouse, godowns, silos and cold storage in the producing areas to non-agriculture. The advances to cold storages can also be reported under SSI but these accounts shall be reported only under one sectors / sub sectors of priority sectors.

(G) Loans to farmers for development activities through.

> (a) Primary Agricultural Credit Societies, Farmers Service Societies and Large-size Adivasi Multipurpose Societies.
>
> (b) Co-operative banks
>
> (c) Co-operative marketing societies directly are through cooperative banks.

(d) Co-operative Banks of Producers (e.g. Aarey Milk Colony Co-operative bank, consisting of license cattle owners). Wherever the loans are routed through cooperative banks, a certificate from state cooperative bank in favour of such loans shall have to be procured.

(H) Advance to State Sponsored Corporations for onward lending to weaker sections of agriculturists.

(I) Commission agents finance to farmers can be refinanced by banks to the extent of 50 per cent. Such refinance extended by banks to commission agents can be covered here.

(J) Finance granted to small and margin farmers for the purchase of shares of co operative sugar mills and joint stock companies provided they satisfy some conditions in regard to acreage under sugarcane cultivation, margin/own contribution, non default etc.

(K) Cattle field distributors/ dealers enjoying credit limit up to Rs. 5 lakhs.

2. Small Scale Industries:

The small scale industries occupy a strategic place in the growth process of the country's economy[1]. The units engaged in manufacturing, processing, preservation of

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[1] Sharma,B P. "The Role of Commercial Banks in India's Developing Economy", pub. S. Chand and Company, Delhi, 1974; p.200

goods, mining quarrying or servicing and their investment in plant and machinery (original cost) does not exceed Rs. 3 crore, will be termed as small scale industries.

In case of ancillary units and export oriented units the investment in plant and machinery (original cost) should not exceed Rs. 3 crore and shall also be classified as small-scale industries. The original cost is the amount paid to acquire plant and machinery irrespective of new or second hand machinery. In case where small scale industry unit has associate/sister/owned concerns, subsidiaries or is controlled/controlling other industrial units, such unit will be governed by directives notification dated Jan 1st, 1993 which is given at Appendix I. The items which do not form a part of plant and machinery of small scale industry are also given in this notification. Industry related service and business oriented enterprises having investment up to Rs. 5 lakhs in fixed assets excluding land and building are also to be treated as small scale industries units. For computation of value of fixed assets, the original price paid by the original owner will be considered irrespective of the price paid by the subsequent owner. Such small-scale establishment would cover activities mentioned at Appendix II. Such services oriented units are termed as small scale/business enterprise.

Artisans, Khadi, Village and Cottage industries and tiny industries are the part of small scale industries. Salt manufacturing through any process (solar evaporation) and/or manual operation shall also be covered under small scale industry. Indirect finance in the small scale industrial sectors will include credit to:

(i) Agencies involved in assisting the decentralised sectors in the supply of inputs of artisans, village, and cottage industries.

(ii) Government sponsored corporations/organisations providing funds to weaker sections engaged in small scale industries, and

(iii) Loans released in setting up of industrial estates are also to be treated as small-scale industrial advances.

Advances made to SFC and State Industrial and Investment Corporations for financing to small-scale industrial units shall be covered.

3. **Small road and water transport operators:**

(a) The road transport includes auto-rickshaw, taxis (cars/jeeps) light commercial vehicles/tempos, buses, trucks, rickshaws, tanga, camel/bullock/pony/donkey carts, etc.

(b) Water transport includes boats, launchers, etc., the person interested to raise loan under the afore mentioned activities will be water transport operator. Advances to small road and water transport operators owning a fleet of vehicles not exceeding six vehicles including the one proposed to be financed shall be covered under this head.

(c) Financing up to 2 vehicles to Khadi Village Industries Board for marketing their products provided cost of each vehicle does not exceed Rs. 3 lakhs shall also be covered here.

4. **Retail Trade:**

Advances granted to: (a) private retail traders dealing in any commodity except fertilizers, pesticides and seeds and enjoy credit limits not exceeding Rs. 2 lakhs.

(b) Financing to sale outlet of products of artisans, khadi, and vllage industries and village and cottage industries up to Rs. 10 lakhs.

(c) Fair price shops dealing in essential commodities and consumer cooperative stores.

5. **Small Business**

Small business would include individuals and firms managing a business enterprise mainly for the purpose of providing any services other than professional services whose original cost price of the equipment used for the purpose of business does not exceed Rs. 10 lakhs with working capital limit of Rs. 5 lakhs or less. Further the aggregate of the term loan and working capital limit should not exceed Rs. 10 lakhs. Advances for acquisition, construction, renovation of houseboat and tourist accommodation, loans to judicial stamp vender shall be included here. Distributors of mineral oil shall also be classified here.

6. **Professional and self employed persons:**

Loans for professional and self employed persons include loans for the purpose of purchasing equipment, repairing or renovating existing equipment and/or acquiring and repairing business premises for purchasing tools and/or for working capital requirements to medical practitioners (including dentist), Chartered Accountants, Cost

Accountant, Lawyers or Solicitors, Engineers, Architects, Surveyors, Construction Contractors, Computer Agencies, Management Consultants, Practicing Company Secretaries, Accredited Journalists, free lancers cameramen or a person trained in any other art or craft who hold either a degree or diploma from any institute established, aided or recognised by Government or person who is considered by the bank as technically qualified or skilled in the field in which he intends employment/employed. These categories will also include firms and joint ventures of such professional and self employed persons and persons to be benefited under special schemes, if any introduced for the purpose. Free-lancer, cameramen can get vehicle loans. Only such professional and self employed persons whose term loan borrowings do not exceed Rs. 5 lakhs of which not more than Rs. 1 lakh should be for working capital requirements, should be covered here.

Preference may be given by banks to finance medical professionals who are carrying on their profession in rural and semi-urban areas. They may be extended term loan up to Rs. 10 lakhs with sub-ceiling of Rs. 2 lakhs for working capital. They may also be given loan against one motor vehicle within Rs. 10 lakhs

7. Education:

Educational loans should include only loans and advances granted to individuals for educational purposes and not those granted to institutions and will include all advances granted by banks under special schemes, if any introduced for the purpose.

8. Housing:

(a) *Direct Finance*: Loans up to Rs. 2 lakhs for construction of houses and Rs. 2500/ for repairs to damaged houses.

(b) *Indirect Finance:* (i) Assistance given to any Governmental agency for the purpose of constructing houses where loan component does not exceed Rs. 2 lakhs per unit.

(ii) Assistance to any Government non Government agency approved by National Housing Bank for slum clearance and rehabilitation of slum dwellers for the purpose of constructing house where loan component does not exceed Rs. 2 lakhs per unit.

9. Consumption loans:

Pure consumption loans granted under the consumption credit schemes should be included under this head.

(a) Medical expenses	500.00
(b) Marriage ceremonies	500.00
(c) Educational needs	200.00
(d) General Consumption	150.00
(e) Funerals, births, etc.	150.00
(f) Certain religious ceremonies	150.00

The aggregate finance for two or more purposes should not exceed Rs. 1000/- per family. However, purpose wise ceiling will not apply in the case of loans against the security of gold and silver ornaments. In such cases ceiling of Rs. 2000/- may be stipulated. Consumption loans should be disbursed along with the productive loan and rate of interest should be of productive loan.

The agricultural and small-scale industries accounted for more than 80 per cent of the total advances for priority sectors and hence the weaker sections were identified only in these two sectors. Even for the purpose of targets set for advances for exports other than those given to small-scale industries were excluded.

Weaker Sections within Priority Sectors:

When the idea of priority sectors was conceived, the Reserve Bank of India did not spell out any ceiling on the credit extended by the banks to the more affluent sectors within the priority sectors. The Krishnaswamy Working Group on Priority Sectors lending observed in 1972 that there is a need to ensure that bank advances within priority sectors are given increasingly to the comparatively weaker sections. The weaker sections in the priority sectors would mean the under-privileged sections of the society. Their weakness may either be financial or social. The socially weaker sections of the society such as Scheduled Castes/Tribes persons are as a class, financially weak, and suffer from a lack of bargaining power articulation in getting their grievances met. In order to ensure that the more under-privileged sections in the priority sectors are given preferred attention by banks. The concept of weaker sections of the society within the priority sectors has been introduced and comprised of:

1. Small and marginal farmers with land holdings of five acres or less, and tenant farmers and share croppers, and agricultural labourers in agricultural sectors;

2. Artisans, village and cottage industries and small units enjoying credit limit up to Rs. 25,000/-.
3. Beneficiaries of poverty alleviation programmes, viz., Integrated Rural Development Programme (IRDP), Differential Rates of Interest (DRI) scheme, and Self-Employment Programme for the Urban Poor (SEPUP); and,
4. Beneficiaries belonging to scheduled castes and scheduled tribes.

This sectors also includes indirect finance, i.e., loans granted to organizations established for the development assistance to physically handicapped and scheduled castes and tribes to those engaged in the promotional and marketing activities of out put of artisans, village and cottage industries etc.

Conclusion:

From the foregoing discussion it has brought out that the priority sectors coined before the nationalisation of commercial banks. These sectors were involved on the basis of what was considered to be hitherto, neglected sectors of the economy. These sectors were given due priority not because of their tremendous potential of employment generation and various other benefits they confer on the weaker sections but also because of their significant contribution to the national income.

At the second meeting of the National Credit Council in July 1968, the priority sectors was defined to include only two activities, agriculture and small-scale industry. It was in 1972, on the basis of a report submitted by the Informal Study Group on Statistics relating to priority sectors constituted by the Reserve Bank of India that amore comprehensive definition suggested by the Group remains virtually unchanged, except for the addition of the housing for weaker sections and pure consumption loans.

The concept of priority sectors was reviewed by the Working Group under the Chairmanship of Dr. K.S. Krishnaswamy, the then Deputy Governor of Reserve Bank of India. The Group had endorsed the existing priority sectors for the purpose of lending targets. While export were considered part of priority sectors, this sector had not been included for the purpose of lending targets to be achieved by the banks, except the exports credit extended to small-scale industries. Over the period of more than three decades the composition of priority sectors has undergone some modifications in the activities covered.

In the next chapter, an analyse in regard to the emergence of concept of social banking and priority sectors lending in India, the role played by the Reserve Bank of India (RBI) and the introduction of social control in 1967, which was a transitional measure designed to induct social dimension to the commercial banking system have been made out. The social orientation process of banking was fully realised with the subsequent step taken to nationalisation major commercial banks.

Appendix-I

Notification

Ministry of Industry

(Department of Industrial Development)

New Delhi.

Dated January 1,1993

Central Government considers it necessary with a view to ascertaining which ancillary and small-scale industrial under-takings need supportive measures, exemptions or other favourable treatment, under the Industries (Development and Regulation) Act, 1951 for the purpose specified in Section II-B of the said Act:

And whereas the draft Notification was laid before each House of Parliament for a period of 30 days as required under Sub-Section (3) of Section II-B of the said Act.

And whereas no modification in the proposed Notification has been suggested by both Houses of Parliament.

Now, therefore in exercise of the power conferred by Sub-section (I) of Section II-B and Sub-section (1) of Section 29-B of the said Act, the Central Government for the purpose of further specifying the requirements which shall be complied with by the industrial undertaking to enable them to be regarded as an ancillary or a small scale industrial undertaking for the purpose of the said Act, makes the following amendments in the Notification of the Government of India in the Ministry of

Industry (Department of Industrial Development) No. S.O. 232 (E) dated the April 2, 1991 namely:-

In the said Notification, in the Table, in paragraph II the existing note shall be numbered, the following Explanation and Note shall be inserted namely:-

Explanation:- For the purpose of this Note;-

(A) "Owned" shall have the meaning as derived from the definition of the expression "owner" specified in clause (f) of Section 3 of the Industries (Development & Regulation) Act, 1951 (65 of 1951);

(B) "Subsidiary" shall have the same meaning as in clause (47) of Section 2, read with Section 4, of the Companies Act, 1956 (1of 1956);

(C) The expression "controlled by any other industrial undertaking" means as under:-

i) where two or more industrial undertaking are set up by the same person as a proprietor, each of such industrial under-taking shall be considered to be controlled by the other industrial undertaking or undertakings.

ii) Where two or more industrial undertakings are set up as partnership firms under the Indian Partnership Act, 1932 (1 of 1932) and one or more partners are common partner or partners in such firms, each such undertaking shall be considered to be controlled by the other undertaking or undertakings;

iii) where industrial undertaking are set up by companies under the Companies Act, 1956 (1of 1956), an industrial undertaking shall be considered to be controlled by other industrial undertaking if:-

a) the equity holding by other industrial undertaking in it exceeds 24% of its equity; or

b) the management control of an undertaking is passed on to the other industrial under-taking by way of the Managing Director of the/first mentioned undertaking being also the Managing Director or Director in the other industrial undertaking or the majority of Directors on the Board of the first mentioned undertaking being the equity holders in the other industrial undertaking it terms of the provisions of (a) and (b) of sub-clause (iv);

(iv) The extent of equity participation by other industrial undertaking or undertakings in the undertakings per-sub-clause (iii) above shall be worked out as follows:-

a) the equity participation by other industrial undertaking shall include both foreign and domestic equity;

b) equity participation by other industrial undertaking shall mean total equity held in an industrial undertaking by other industrial undertaking or undertakings, whether small scale or otherwise put together as well as the equity held by persons who are Directors in any other industrial undertaking or undertakings:

c) equity held by a person, having special technical qualification and experience appointed as a Director in small scale industrial undertaking, to the extent of qualification shares, if so provided in the Articles of Association, shall not be counted in computing the equity held by other industrial undertaking or undertakings even if the person concerned is a Director in other industrial undertaking or undertaking;

v) where an industrial undertakings is a subsidiary of or is owned or controlled by, any other industrial undertaking or under-takings in terms of sub-clause (I), sub-clause (ii), or sub-clause(iii), and if the total investment in fixed assets in plant and machinery of the first mentioned industrial undertaking and he other industrial undertaking or undertakings clubbed together exceeds the limit of investment specified in paragraph I or II of this Table, as the case may be, none of these industrial undertaking shall be considered to be a small scale or ancillary industrial undertaking.

Note –2

A) In calculating the value of plant and machinery for the purpose of this Notification, the original price thereof, irrespective of whether the plant and machinery are new or second hand, shall be taken into account.

B) In calculating the value of plant and machinery, the following shall be excluded, namely:-

i) the cost of equipments such as tools, jigs, dies moulds and spare parts for maintenance and the cost of consumable stores;

ii) the cost of installation of plant and machinery;

iii) the cost of Research and Development (R&D) equipment and pollution control equipment;

iv) the cost of generation sets, extra transformer etc. installed by the under taking as per the regulations of the State Electricity Board;

v) the bank charges and service charges paid to the National Small Industries Corporation or the State Small Industries Corporation;

vi) the cost involved in procurement of installation of cables, wiring, bus bars, electrical control panels (not those mounted on individual machines), oil circuit breakers/miniature circuit breakers etc., which are necessary to be used for providing electrical power to the plant and machinery/safety measures;

vii) the cost of gas producer plant;

viii) transportation charges (excluding of taxes e.g. Sales tax, Excise etc.) for indigenous machinery from the place of manufacturing to the site of the factory;

ix) charges paid for technical know-how for erection of plant and machinery;

x) cost of such storage tanks which store raw material finished products only and not linked with the manufacturing process; and

xi) cost of fire fighting equipment

In the case of imported machinery, the following shall be included in calculating the value, namely:-

a) Import duty (excluding miscellaneous expenses as transportation from the port to the site of the factory, demurrage paid at the port);

b) The shipping charges;

c) Customs clearance charges; and

d) Sales tax.

List of Activities not covered under SSI

i) Biochemical/Biological laboratories.

ii) Hatcheries.

iii) Tissue culture.

iv) Beedi making/Tobacco processing.

v) Colour Film processing studios.

vi) Laboratories engaged in testing of raw material and finished products.

vii) Software servicing and data processing.

viii) Documentary film production units.

ix) Servicing Industry undertakings engaged in maintenance, repair, testing or servicing of all types of vehicles and machinery of any description including electronic/electrical equipments, television, tape recorder. VCRs, radios, transformers, motors etc.

x) Printing press

It has now been decided that none of the activities above will be recognised as SSI. The activities (vi) to (x) will, however, be registrable as SSSBE's. the remaining activities i.e. (I) to (v) above will not be recognised even as SSSBE's.

Appendix -II

Part A

Illustrative Lost of Activities Which are covered under Small Scale Services/ Business (Industry Related) Enterprises

1. Advertising Agencies
2. Computer graphics & Data Processing
3. Marketing Constancy
4. Industrial Consultancy
5. Equipment Rental & Leasing
6. Typing Centers
7. Xeroxing
8. Industrial photography
9. Industrial R & D Labs
10. Industrial Testing Labs
11. Computerised design & drafting
12. Creation of databases suitable for foreign/Indian markets
13. Software development
14. Auto repair, services and garages
15. Documentary films on themes like, family planning, social forestry, energy conservation & commercial advertisement
16. Laboratories engaged in testing of Raw Materials and Finished products.
17. "Servicing Industry" Undertakings engaged in maintenance, repair, testing or servicing of all types of vehicles & machinery of any description

including Electronic/Electrical equipment/instruments i.e. measuring /control instruments, televisions, tape recorders, VCRs, radios, transformers, motors, watches, etc.

18. Printing Press
19. Laundry& Dry-cleaning
20. X-Ray Clinic
21. Tailoring
22. Servicing in Agriculture farm equipment e.g. Tractors, Pump, Rig. Boring Machine etc.
23. Weigh Bridge
24. Photographic Lab
25. Blue printing and enlargement of drawing/designs facilities
26. ISD/STD Booths for industries
27. Teleprinter /FAX services.

List of Activities not covered under SSI

1. Biochemical/Biological testing laboratories.
2. Hatcheries.
3. Tissue culture
4. Beedi making/Tobacco processing.
5. Colour Film processing studios.
6. Laboratories engaged in testing of raw materials and finished products.
7. Software servicing and data processing.

8. Documentary film production units.
9. Servicing Industry undertakings engaged in maintenance, repair, testing or servicing of all types of vehicles and machinery of any description including electronic/electrical equipments, television, tape recorders. VCRs. Radios, transformers, motors etc
10. Printing Press

It has now been decided that m\none of the activities above will be recognised as SSI. The activities (vi) to (x) will, however, be registerable as SSSBE's. The remaining activities i.e. (i) to (v) above will not be recognised even as SSBE's.

PART-B

Illustrating list of Activities which are not recognized as Small Scale Industry/Business (Industry Related) Enterprises i.e. SSS/BE's

1. Transportation
2. Storage (except cold storage which is recognized as SSI)
3. Retail/Wholesale trade establishments
4. General Merchandise Stores
5. Sale outlets for industrial components
6. Health services including pathological laboratories
7. Legal services
8. Educational Services
9. Social Services
10. Hotels

CHAPTER – III

EMERGENCE OF THE CONCEPT OF SOCIAL BANKING AND PRIORITY SECTORS LENDING IN INDIA

CHAPTER - III

Emergence of the Concept of Social Banking and Priority Sectors Lending in India

In the earlier, chapter, we have outlined the concept of priority sectors. The present chapter is primarily devoted a study the emergence of social banking and priority sectors lending and the mechanism for its implementation. Social control was envisaged within the framework of existing private ownership of banks, as over two-third of banking was in private sector. The objectives of social control were to be achieved through the extension of banking facilities to rural areas and by increasing the flow of credit to the hitherto neglected sectors like, agriculture, small-scale industries, and other small borrowers. The need for opening up more and more branches was recognised and Reserve Bank of India's licensing policy was accordingly formulated to enable banks to open large number of branches in rural areas. Prior to the establishment of the of the Reserve Bank of India (RBI) in 1935, the principal functions associated with the Central Bank of the country were performed, however inadequately, primarily by the Government of India, and to lesser extent by the Imperial Bank of India, since its establishment in 1921. The Imperial Bank acted as banker to the Government and as a bankers' bank, in addition to its primary functions as a commercial bank.

By the time the RBI came to be established, organised banking in India had started its operations. An important element of this sector comprised foreign banks, generally referred to as exchange banks. There was in addition a fairly extensive indigenous banking sector, having rather loose links with the organised banking system, which itself was not an integrated one.

The "statute for India's Central Bank was an analgam of the country's experience and aspirations in monetary and banking matters. Central Banking principles and organisation evolved abroad and devices intended to safeguard the interests of foreign power"[1]. The Reserve Bank emergence as a bank having a developmental and promotional role, in addition to its role as Central Bank, had occurred in the year 1947.

Role of Reserve Bank of India:

The Reserve Bank of India was largely based on the Bank of England model with the issue department and banking department. Form the start, the problem of agriculture credit was the special responsibility of the Reserve Bank. The Act required the Bank to regulate the issue of bank notes, and the keeping of reserves with a view to ensuring stability and enjoined it to operate the currency and credit system of the country to its advantage. Hence, it was a responsible for note issue, it was the custodian of cash balances of Government and was also responsible for management of public debt. But the special responsibility of the Bank in the sphere of agricultural credit made it somewhat distinct. It indicated the concern for organizing and developing a system of credit under its direction for the country's major sector,

[1] Deshmukh,C.D., Anjaria J. J., Saraiya R.G. and Datta B, (edited), "History of Reserve Bank of India", pub. Times of India Press, Mumbai, 1970, p.40.

namely agriculture, which had remained outside the purview of modern banking. A few aspects of the working of Reserve Bank were so striking, in comparision with other central banks generally as its role in sphere of rural finance[1].

The Reserve Bank's responsibility in this field has been due to the predominantly agricultural base of the Indian economy and the urgent need to expand and co-ordinate the credit facilities available to the agricultural sector. With a view to enabling the RBI to fulfill this important role, the Reserve Bank of India Act lays down, in section 54, that it should set up a special agricultural credit department with advisory, consultative and co-ordination functions in the sphere of agricultural credit. Section 17 of the Act envisages the provision of agricultural credit by RBI either through scheduled banks or through State Co-operative banks, particularly agricultural operation and marketing of crops.

The role of Reserve Bank of India (RBI) in rural banking is to be seen against the background of the period from 1950 to 1967 where the Indian commercial banks were distinctly catering to organised large industries and industrial houses and a large proportion of advances were sanctioned at major urban/metropolitan centers. Only the State Bank of India among commercial banks had the special responsibility of providing banking facility in rural areas. This was of course after old Imperial Bank was reconstituted to form State Bank of India in 1955.

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[1] Deshmukh,C D, Anjaria J J and Sariya R G, op.cit., p. 153.

It was only with the nationalization of RBI in 1949 that the developmental role of the Bank vis-à-vis the financial structure became crystallized and accepted. The adoption of planned development as an objective of economic policy in 1951 added a new dimension to the bank's approach.

The first statutory report on the system of rural credit was published within three years of the inception of Agricultural Credit Department of the RBI and was followed by a number of other studies on the subject. The All India Rural Credit Survey Committee was appointed in 1951. The Committee's report truly marks an important water shed in the history of rural India, not only because it made far-reaching recommendations, but also because it most of them were accepted with alacrity and implemented with determination in the years that followed. The report came out with an integrated scheme for expansion and reorganisation of the rural agricultural credit system with an active support of the RBI. With the publication of the All India Rural Credit Survey Report and the quick action taken on it by the Central Government, the RBI assumed a greater and more active role in rural lending. The Reserve Bank Act was amended in 1955 to enable it to create two funds and in 1956 two special funds were set up by the Reserve Bank to enable it to assist State Governments with new tasks. These were: the National Agricultural Credit (Long Term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund. By 1959, the contribution to the Long Term Fund from Reserve Bank's profit reached Rs. 30 crores. The fund was established to make long term loan to State Governments for enabling them to subscribe to the share capital of co-operative institutions and medium term loans to state co-operative banks for approved agricultural and other purposes. The stablisation of funds had the objective of providing medium term loans to State Co-operative Banks for repayment of dues to the RBI in respect of short-term finance provided by it against bill of exchange or promissory note in the event of droughts, famines or other natural calamities.

In 1963, RBI promoted the Agricultural Refinance Corporation (ARC) for providing medium term and long term loans to primary lenders, i.e, both co-operatives and commercial banks for such compact projects as land reclamation, development of land for better irrigation, mechanized farming, animal husbandry, dairy farming and exploitation of sub-soil water resources. The formation of corporation was a major landmark in the evolution of rural and agricultural credit system. It played a leading part in motivating and facilitating commercial banks to increase their involvement in rural credit dispensation.

Role of State Bank of India:

The reconstruction of Imperial Bank of India as the State Bank of India (SBI) in 1959 brought a sizeable proportion of the commercial banking system into the public sector. State Bank of India, along with associate banks commanded about 28 per cent of deposits and 31 per cent of the total advances of banking system. In fact, the General Report of the All India Rural Credit Survey had recommended the constitution of the Imperial Bank of India and the State associated banks. The Survey provided guidelines for selection of centers for branch expansion of the State Bank of

India (SBI) and associate banks. Out of 100 districts and 1500 sub-treasury centers all over India, it recommended coverage of all the existing district centers and 300 sub-treasury centers. The need for providing banking facilities in relatively backward areas was reognised. During the five years following the conditions of State Bank of India (SBI), 416 branches were opened as against the statutory target of 400.

The State Bank of India (SBI), and associate banks provided a major impetus to the growth of banking system in the decade following their constitution. The number of bank branches, including private sector banks, went up from 3804 in December 1955 to 7048 in December 1968. Total bank deposits in the same period increased from Rs.1141 crores to Rs. 4477 crores and advances from Rs. 705 crores to RS.3159 crores.

Social Banking-An Overview:

Socio-economic growth implies balanced regional development, optimum utilisation of local resources, more employment opportunities and reduction of inequality in income and wealth. The Directive Principles of the of the State Policy, as laid down in the Constitution provide that the State shall strive to promote welfare of the people by securing and protecting, as effectively as it may. A social order in which justice, social, economic and political, shall inform all the institutions of national life[1]. Banking system constitution an important link among the various economic activities and can play a direct role not only in creating the machinery

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[1]. Preet, H.S Op. cit., p.58

needed for financing developmental activities but also in ensuring that the finance made available goes into the desired direction. Banking industry, therefore, has been called upon to play a critical developmental role in the new dimensions of social and economic changes. It had been diverted from class banking to mass banking; from security oriented lending to purpose oriented lending and from profit oriented financing to social banking. The creation of State Bank of India (SBI) in 1955 is considered to be the beginning of era of social banking. However, the social control over banks in 1968 and nationalisation of commercial banks in 1969 were important landmarks and had added a new dimension to the banking industry. These symbolized further concrete steps in taking banking away from the elite to the egalitarian society and providing financial assistance to the needy and the poor.

Concept of Social Banking:

Social banking is a corollary of social transformation in the context of commercial banking. Amelioration of the lot of the poorer sections of the society is the philosophy of social banking. Social banking stands for the orientation and direction of the various activities of commercial banks towards the upliftment of the poor and downtrodden with the aim of achieving socialistic pattern of society[1].

The term social banking refers to the policy induced bank assistance to the designated priority sectors and weaker sections of the community, such as agriculture. small-scale industries, professional and self employed, road and water transport

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[1] Siddaiah,T. "Social Banking in Chittoor District", the thesis submitted at Shri Venkateshvara University Andhra Pradesh for the award of Ph.D. 1984, p.30

operators, retail trade and small business, and education, which had hardly any access to the banking system prior to nationalization of banks in 1969 [1].

Social banking also implies opening of branches in places hitherto unbanked and accent on liberal lending for rural avocation. Coupled with massive opening of bank offices in unbanked areas, a number of programmes, schemes and measures were taken up by the banks to transform the concept of social banking into an action – oriented programme.

Social banking is an economic activity which is pursued in developing countries for ushering in social and economic change. To some extent, this function is considered synonymous with development banking, and can be defined to be a conscious and deliberate policy action of the Central Bank to channel loanable funds towards socially desirable investments[2]. This action was followed on the premise that social priorities must take precedence over private gains, more so, in consonance with the ethical principles of equity and distributive justice. A developing economy embodies the characteristics of suboptimally utilized available physical and natural resources, and a large multitude of latent human resource. Human beings constitute a society, and the economic and social upliftment of the people are, unquestionably, the appropriate indicators of development.

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[1] Srinivasan, R. "Balancing Social Banking with Profitability", The Journal of the Indian Institute of Bankers. Allahabad Vol.59, No.1.(January – March) 1988, p.37.
[2] Subramaninan K and Velayudham T K (edited) op.cit., Kurin J, " State Institution and Social Banking: A Theoretical Interpretation", p.460

Social banking is not a charitable function. It is a set of activities in the cause of social goods undertaken within the principles of commercial banking. It is achieving of welfare of the society from which funds are mobilised in the shape of deposits[1]. Our development plans also aim at growth and social justice. The banks as financial intermediaries are the best suited to function as instruments of social and economic change.

Our country is so large in area and so diverse in structure with persisting problems of poverty and unemployment that efforts have to be made on a massive scale to bring about the desired development. In a developing economy, the important issue is to avoid lop - sided development and ensure provision of equal opportunities to all. Our economic development largely depends on the success we achieve in the rural development. In the process of development, the banks have to play the role of a catalytic agent. With nationalisation of commercial banks, on 19 July, 1969 there had been an upsurge in the common man's expectation about banking.

Social banking is a mission which has to be pursued with sincerity of purpose. A banker can succeed only if he attempts to get the feeling of the area. He must be sensitive enough to grasp local problems and have solution for the same. Apart from providing financial assistance, banks can consider undertaking promotional activities. Such as arranging medical camps, adult education campaigns, providing drinking water facilities etc. in rural areas. The problems of sanitation and housing are age old

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[1] Paranjape,B, "Making Social Banking Purposive", Commerce. Mumbai, Vol. 139. No. 35554, July, 1978.p17.

problems and they need to be tackled in the context of emphasis on total development. Another area where banks can enter is providing vocational guidance to the young entrepreneurs for self - employment. The small artisans, cobblers, potters, etc. carry on their professions with primitive tools and equipments. Arrangements could be made by banks to import training to them in bigger business organisations where such activities are carried out with sophisticated methods.

The principle of social banking can best be followed when banks consider adoption of areas as models for integrated area development. Such adoption should be a participative process in which voluntary organisations could be induced to take active part. Banks had already set up special schemes such as Multi-service Agency, Village Adoption Scheme, etc. to foster speedy development of the area. However more tangible efforts are necessary.

The development role assumed by the banking industry puts a responsibility on the bank to the meet the financial requirements of the priority sectors. If this role is to be played effectively, the manpower of the banks must be trained and prepared in a new way in line with the changing environment. Sympathetic understanding of the social problems is very much essential. The banker has to emerge as a 'social leader' in his command area. In making social banking more purposive, the Government and other responsible authorities require to direct banks to lend in a friendly atmosphere if top management should be fully committed to this concept.

In the light of above observation, it stands to reason that banks should consider social banking as an indispensable service to the society rather than an unavoidable obligation.

Definition: The Estimates Committee has applied itself to examination of the fundamental issues relating to definition of social banking. Although the Committee's task was to examine various issues in social banking in relation to the approach and performance of the State Bank of India. It wisely chosen to concern itself right at the beginning with the definitional issue, for there is considerable confusion, even today, among a vocal section of opinion - leaders about the role of banks[1].

There is a view that real banking is only what is profitable and commercially viable. Development banking or social banking is seen as activities forced on the banks by political masters for serving their political ends, and activity which are neither viable for those who pursue them nor profitable for banks who may finance them. The Estimates Committee's report is in relation to State Bank of India, but so far as the definitional issue regarding social banking verses commercial banking is concerned, the conclusion of the committee bear wide relevance. The Estimates Committee concludes that although the benefits of welfare oriented social banking can not be readily qualified, it is of great relevance in a future perspective. Such banking activity should not be seen as a derivation from normal commercial banking but as laying the foundation for commercial banking among the beneficiaries in the

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[1] "Social Banking Towards a Clear Rationale" Business India, Mumbai, August 10-23, 1987; p.85.

immediate future. The Committee feels that for realising the objectives of social banking, an attitudinal change in the minds of bank functionaries at all levels is imperative. They must clearly understand, in unambiguous term, that it is their bounden duty to carry on their banking activities keeping in view this overall social and economic perspective.

Genesis of Social Control:

In July 19,1969, when major banks were brought under Government ownership, there was some concern on the part of the Government and the Reserve Bank of India (RBI) for achieving a syncronisation of banking and credit policies with the requirements of the economy. Banking was recognized as an instrument for mobilizing savings and purveying credit in areas and sectors which had not hitherto have access to banking facility. It was felt that the agriculture sector remained outside the main stream of institutional credit. The result was that the informal sector had over 70 percent share in borrowings by cultivators and this hold needed to be reduced by the provision of banking facilities.

Under the impact of increased development outlay, the organized sector of commercial banking system was becoming predominantly oriented, from the inception of planning, towards large industries and big business houses. This was facilitated to an extent by the policy to preserve the existing system of control over banking which was in the hands of private sector, except SBI which had less than a third of the share in the banking system. The nature and dimensions of banking growth were largely directed by those who controlled large industries and they moulded the pattern expansion and credit allocation to suit their own requirements[1].

The thinking that banking is a public service where the social ends are no less important than profit objective came to take shape in the early sixties. In this context the imbalance in banking facilities and flow patterns of bank credit become more pronounced. Profit based commercial banking was found incompatible with the planned economy. The impetus for charge in credit structure originated during this period from the agricultural sector, particularly as the co-operative credit agencies were not able to meet the entire credit needs of the agricultural sector. Consequently, efforts were initiated in the direction of providing credit through the commercial banking system under the aegis of social control.

Official recognition of the need to have close look at the commercial banking system came up at a debate in the Rajya Sabha in May 1967. A resolution was accepted which committed Government to initiate such steps including nationalisation as may be necessary to extend effective social control over these institutions[2]. In accordance with this, an indept examination of the policies and practices of commercial banks was undertaken which led to the formulation of social control policy announced in the Parliament in December, 1967.

In a statement made in parliament on 14th December 1967, the then Minister of Finance observed that the policy of social control was intended to ensure that

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[1] Srinivasan R, op.cit.. p.21.
[2] Ibid.

particular clients or groups of clients are not favoured in the matter of distribution of credit and whatever the character of shareholding, its influence is neutralised in the constitution of the board of directors and in actual credit decisions taken at different levels of management.

The objective of social control as envisaged at that time was to ensure, without actual takeover of banks into Government ownership, the achievement of those social ends that nationalisation could conceivably secure. The major objective of social control was clearly a more purposeful distribution of available credit in terms of accepted priorities of development. These were to ensure in the immediate future, an equitable and purposeful distribution of credit, with in the resources available, keeping in view the relative priorities of developmental needs[1]. Correspondingly, since the credit needs were likely to run ahead of availability of savings, it implied efficient mobilisation of deposits. The later aspect came into prominence because the concentration of banking was mainly in urban and metropolitan areas.

The major instrument for the purpose of implementing social control was the National Credit Council. It was established for the purpose of assessment of demand for bank credit from various sectors of the economy and for determining the priorities for grant of loans and advances for investment, having regards to the availability of resources and requirements of the priority sectors, in particular, namely agriculture, small scale industry and exports.

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[1] Ghosh,D N op.cit., p.216

The social control policy envisage the appointment of professional bankers as chairman of banks. Banks were not permitted to make loans to board members or to concern in which they are interested as directors, partners, managers, employees or managing agents or substantial shareholders. Each bank's board was to comprise of representatives of farmers, small industries and other small borrowers. These were changes which had a reaching implications.

Banks could no longer take passive line, wait for deposits to come in and decide on the loan policies merely in terms of sound parties or good security. While security and liquidity aspects were recognized as crucial for banking[1]. The banks had to consider the purpose' for which credit was to be extended and final ways rendering more effective services to sector in which they had not ventured. Thus, the stress on `purpose' and 'priority' could be considered a logical step towards socially determined programmes of economic and financial development. The social control measures were intended to meet the main shortcomings of banking system, namely that priority sectors such as agriculture, small scale industries and exports had not be receiving their due share of bank credit[2].

The National Credit Council addressed itself to several main issues during the period from March, 1968 to March, 1969. The first meeting of the Council in March 1968 discussed and general agreed on issue like deposit mobilization and credit allocation to particular sectors. Recognising that problems of credit planning were,

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[1] Srinivasan,R, op.cit., p.22.
[2] Ibid.

complex, the National Credit Council appointed a Standing Committee under the chairmanship of the Governor of the Reserve Bank of India (RBI) to formulate concrete proposals the consideration of the Council. The proposals made by the Standing Committee including that commercial banks should take up financing of agriculture and rural industries, on a much larger scale than hitherto, was subsequently endorsed by the Council. The second meeting of the Council set up five study groups on different subjects, namely:

(a) Deposit Mobilisation by Commercial and Co-operative Banks (Chairman- Shri T.A. Pai) .

(b) Credit Needs by Industry and Trade (Chairman – Shri V.T. Dehejia).

(c) Organisational Framework for Implementation of Social Objectives (Chairman-Prof. D.R. Gadgil).

(d) Area/Project Approach for Agricultural Credit (Chairman Shri P.N. Damry).

(e) Bank Finance for Road Transport Operators (Chariman Shri. V.D.Thakker).

The last meeting of the National Credit Council was on 21st March,1969. At this meeting, certain targets for branch expansion were suggested on the basis of the Report of the Study Group on Deposit Mobilisation. The suggestion was that every town with a population of more than 10,000 should be covered by banking facilities by the end of 1970. The report of the Study Group on Banking Finance to Road

Transport Operators was considered by the Council. It suggested that credit to road and water transport operator should be considered as part of the priority sectors and treated on par with small scale industries.

The recommendations of the Study Group on organizational framework for implementation of social objectives under the Chairmanship of Prof. D.R.Gadgil had a far reaching impact on the policies pursued during the period after 1960. The area approach' to lending, allocation of lead districts to banks and district credit planning to bridge credit gaps were among the important suggestions of this Study Group. The main conclusions outlined below, pinpointing the deficiencies in the then existing system of institutional credit provided the rationale for formulation of lending policies of banks in later years.

1. At a time when the economy was expanding and the credit demand was increasing, the banking system was not responding to this need adequately. Even in areas served by commercial bank branches, the later were not financing agriculturist and other small borrowers with the result that they had to depend on the informal financial sector. Instead of increasing the coverage of borrowers from the banking system, there was a decline in the number of borrowal accounts. The assessment of institutional credit requirements in various sectors indicated that only 39 per cent of the total agricultural credit requirements was met from institutional sources, namely

banks and co-operatives. The gap between credit requirements and availability in respect of the small-scale sector was 35 percent[1].

2. Banks were reluctant to undertake lending to small borrowers, the main reasons being that these borrowers could not offer collateral security to the satisfaction of the banks. Banks in the private sector also did not have the necessary technical personnel for processing small loan applications

3. Case studies made by the Study Group indicated a heavy dependence on the informal sector by artisans, village and cottage industries and farmers. The informal agencies charged exorbitant interest from borrowers belonging to these categories

In later years the above findings provided to some extent the basis for adopting targets for priority sectors lending. It also led to a shift in banks' approach to lending on the basis of the asset creating and income-generating capacity of the borrowers instead of the erstwhile security oriented approach At the second meeting of the Council it was decided that banks should take up financing of agriculture and small-scale sector as a matter of urgency. Specified lending targets in terms of amount were fixed, marking the first attempt to promote target oriented lending to priority sectors In respect of lending to agricultural sector, an initiative was taken by the fertilizer industry which actively sponsored the case for increasing bank credit for fertilizer The main areas of agricultural finance were lift irrigation, farm mechanization, rural electrification, storage development under long term financing and provision of

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[1] Srinivasan,R, op cit , p 24

fertilizer inputs under short-term financing. There was very little direct lending by banks since lending was mostly channeled through intermediaries.

Though thinking on social orientation of commercial banking started ever since planning process was launched. It took nearly two decades before social objectives were crystallised and adopted. Social control of private sector banks introduced in 1967 represented only a transitional phase. Social control nevertheless set the tone for nalionalisation and the formulation of the objectives thereof. Since the social control in its formal form was in vogue for a very short duration of less than two years, its quantitative impact was minimal. It, however, brought about a qualities change in the approach and outlook of banks, oriented to purpose and priority as distinct from 'security' oriented bank lending.

Social control paved the way for an excellent marriage of convenience between the industrial groups controlling banks and the new agricultural classes seeking finance from the institutional agencies under the umbrella of State blessing and patronage. In this contract, the logical step that followed was nationalisation to provide greater social purpose and direction to banking.

An Appraisal of Spread Bank Offices:

The profile of Indian banking has undergone seachange since the nationalization of 14 major commercial banks in July 19, 1969. The growth of banking sector has been phenomenal during the last three decades. The banking sector today provides services throughout the length and breadth of the country[1]. From June 1969 to March, 2000, the number of bank offices increased from 8262 to 65521.

Table 3.1 shows the expansion of branch offices in the interior parts of the country. In 1969, only 1832 branches were in rural areas, which increase to 32719 a rise of more than 16 times in March 2000. However, mere opening of branches is necessary but not sufficient condition in the development process of social banking. The emphasis has to be on promotion of saving habits among the vast population which for centuries has been outside the place of banking. Equally important it is that needed financial assistance is assured to them for undertaking gainful enterprises. In this context, the performance of banking in mobilising deposits and deploying the same has been credible.

Deposit resources of commercial banks increased from nearly Rs. 4646 in June 1969 to around Rs. 867984 crores by September 2000. The most important aspect of lending operations of the banking systems is the increasing flow of funds to the small borrowers in priority sectors. The priority sectors advanced accounted for nearly 34.6 per cent of the total credit of commercial banks as compared to about 14 per cent in June 1969.

One of the major achievements of nationalisation has been a rapid growth of branch network leading to a distinct improvement in population coverage. Table 3.2 presents the population per bank office came down from 65000 in July, 1969 to less

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[1] Kilachand,T R, "Image of Indian Banking:An Outsiders View", IBA Bulletin, Mumbai, Vol.XIII, No.12, December, 1991; p.21

than 15000 by March, 2000. The impressive performance of banks with regard to geographical coverage of branches since nationalisation is evident from the fact that there was nearly eight fold increased in the number of offices.

Table 3.1

Center-wise Distribution of Commercial Bank Office in India (1969-2000)

Center	Offices at the end of June					Offices at the end of March	
	1969	1974	1979	1984	1989	1995	2000
Rural	1832	6165	13337	25372	33014	34933	32719
Semi-Urban	3322	5089	7889	9262	11165	12447	32791
Urban	1447	2988	5037	5769	7524	8982	10176
Metropolitan	1661	2783	3939	4929	5995	5992	8325
Total	8262	16936	30202	45332	57698	62354	65521

Source: RBI Banking Statistics March 2000.

Table 3.2

Population per Bank Office in India (1969-2000)

Year	Population per Bank Office
1969	64,000
1971	46,000
1972	41,000
1973	37,000
1974	35,000
1975	32,000
1976	29,000
1977	25,000
1978	23,000
1979	21,000
1980	20,000
1982	18,000
1983	17,000
1984	16,000
1985	15,000
1986	14,000
1987	15,000
1988	14,000
1989	14,000
1990	14,000
1991	14,000
1992	14,000
1993	14,000
1994	15,000
1995	15,000
1996	15,000
1997	15,000
1998	15,000
1999	15,000
2000	15,000

Source: Reports on Trends and Progress of Banking in India (1969-2000).

Social Banking Through Service Area Approach:

The service area approach is a new strategy on rural credit, design to serve every village of the country. Its aim at bringing about an improvement in the quality of lending, optimising the use of credit, establishing improved linkages, with production and productivity and proper recycling of credit. Under this programme each rural and semi-urban bank office is allotted 15 to 25 villages in a cluster, and is made responsible for taking care of the entire banking needs of the people of those villages.

The main objective of the service area approach is to provide a system in which each bank branch would concentrate on a specified area to develop productive lending. It aims at easing out the maladies of institutional financing like double / multiple financing and wrong chose of beneficiaries. It is an approach rationalize rural lending and reduce cost of supervision by reducing the number of villages in which the branches operated and avoiding duplication of efforts in lending in a village, by more than one bank.

The service area approach efficiently combines certain good aspects of both the lead bank scheme and the village adoption scheme. While the lead bank scheme focuses on credit planning for the district, the services are approach goes down to the micro level planning with the village as the basis. Similarly, while the village adoption scheme emphasis the adoption of some potential villages. The service area approach requires the allocation of each village to a bank branch for its systematic development. Therefore, the service area approach is welcome feature in the rural credit system. The service area approach has the following important aspects:

1. Identification and allocation of service area, for all the rural and semi urban bank offices.
2. Conduct of village wise surveys in the service area.
3. Preparation of credit plan on annual basis.
4. Coordination between credit institutions and field level development agencies.
5. Monitoring of progress under the scheme.

This approach can become successful and fruitful only if the right type of bank staff, with a sense of commitment and involvement, are posted in rural and semi-urban offices. For a realistic resources survey, there must be a direct role of the NABARD and RBI. These controlling agencies should ensure fool proof mechanism for realistic assessment, analysis, evaluation and updating of resources data in each services area[1].

The essence of social banking is credit development with social implications. The social control over banks and the nationalisatioin of bank in two phases were aimed at socialisation of credit. The banking system which was highly urbanised and was meeting the requirements of only well-placed traders, businessmen and industrialist was given a purposeful direction in order to make it a powerful instrument of economic growth with social justice. The commercial banks were

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[1] Singh R. "Service Area Approach: A Rejoinder", The Economic Times. (New Delhi). March 2. 1982: p.6

asked to provide credit at reasonable terms to the priority and neglected sectors of the economy. The efforts made by the commercial banks after the introduction of social banking programmes resulted in the state wise imbalances in credit development to a considerable extent.

Economics of Intermediation:

Banks are business firms intermediating between the "savers" and investor and imparting mobility to financial assets for smoothening out imbalances in the demand for and supply of loanable funds. Through this process of intermediation, banks create earning assets, essentially in the form of loans to prospective investors. Social banks can be regarded as institutions that intermediate between the privileged and the under-privileged sections of the society, to even out the inherent imbalances in their bargaining capacities. Social banking aims to restrain the privileged class of borrowers from pre-empty loanable funds on the basis of their bargaining strength and accessibility to the lender bank.

In a developing economy, more particularly for the under privileged sections of the society, the decision to lend can not strictly be on the tenets of the commercial loan theory of investment, viz. self – liquidating and short term commercial loans. Rather, a decision arrived in respect of an anticipated income of the borrower which is more ideally suited. Nevertheless, there is a greater degree of risk in lending on the basis of anticipated income, and this is precisely the central problem of finance associated with loan recovery. Hence, minimizing the risk will necessitate a realistic assessment of the borrower's repayment capacity. The bank to remain viable, it must ensure smooth recycling of loanable funds.

Dimensions of Social banking:

Social economies are concerned with matters directly affecting the standard of living and the quality of life. Social norms can play an important role in affecting the extent to which growth-enhancing activities can take place. All economic transactions are surrounded in a particular cultural and institutional setting, which greatly influence the nature of the transactions. To put it differently, there is a social and cultural element encompassing any credit relationship. Furthermore, the principles of social organization influence the behavior exepectations of the borrower and thereby condition his attitudes towards the lender bank. The attitude towards factors such as work, thrift, indebteness and the power structure influences the borrower's use of credit and his willingness to repay. Hence, without knowing something about the values, attitude and beliefs held by a particular class of borrowers, it would be virtually impossible to comprehend the borrowers response to credit programmes. Repayment of loan is, in effect also a function of social-cultural and ethical factors.

Branch Expansion in Unbanked Areas:

The Reserve Bank of India (RBI) has made an attempt at gearing up the branch licensing policy to ensure provision of adequate banking facilities in unbanked areas. Creation of banking infrastructure in remote rural areas is an essential pre-requisite for achieving the socio-economic objectives set before the banking industry[1]. Towards the beginning of the second Five Year Plan, the branch licensing policy was liberalised and creation of the State Bank of India in 1955 ushered in a new era in the development of branch banking in India. The State Bank of India opened 416 branches between July 1955 and June 1960 and out of these, 274 branches were located at the centers with a population below 25000. A systematic branch expansion policy was also evolved in June, 1962 by classifying banks as (a) All India Banks, (b) Large Regional Banks and (c) Small Regional Banks. An attempt was made to encourage a balanced branch expansion programme by providing banking facilities in unbanked and under bank areas and restricting overcrowding of bank branches in large metropolitan centres.

A radical change was witnessed in the branches expansion programme in the post nationalisation era, commercial banks, as a class, began to enter into rural sector in a big way. The basic requisite to ensure availability of banking facilities to the masses was to provide operational base in different parts of the country. The branch licensing policy of the Reserve Bank of India (RBI) was, therefore, revamped and commercial banks were given license on a liberal scale to open branches in the remote rural hinterland; hilly tracts; tribal areas, etc. in the ratio given on (page 121)

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[1] Vora,V K,"Branch Expansion An Rural Development: A Rationale Approach" Commerce, Mumbai, August 26, 1978, p.5

1. For the banks having 60 per cent offices in rural and semi-urban areas; one office at an urban centre and one office at a metropolitan / port town centre for every two offices opened in rural / semi-urban centres.

2. For other banks; one office at an urban centre and one office a at a metropolitan / port town for every three offices opened in rural/semi-urban areas. The branch expansion policy announced in January 1977, reiterated its emphasis on rapid extension of banking facilities to rural and hitherto unbanked areas, in order to reduce progressively regional disparities in the provision of banking facilities[1]. According to the revised entitlement formula for the opening of new bank offices, the commercial banks were allowed to open one office each at metropolitan or port town for every four office opened in unbanked rural centres. In 1977, agricultural development branches of banks were started, to deal exclusively with the farmers and other weaker sections of society. The branches were provide with agricultural technical staff to look after exclusively rural, financing deposit mobilization in villages. In 1978, the Reserve Bank of India issued further guideline for branch expansion which indicate that the banks should concentrate in areas where banking facilities were inadequate. For this purpose, the Reserve Bank of India circulated a list of deficit districts in the States / Union Territories where population per banks office was higher than the national average.

[1] "Branch Expansion of Commercial Banks", State Bank of India Monthly Review, Mumbai, Vol.XVIII, No. 3, March 1978, p.119

The branch licensing policy from 1979 to 1982 envisaged wider coverage of bank offices in rural and semi-urban centers in deficit districts in which population served per bank office was more than 20000 people (Table 3.2). It was further stated that the branch expansion in urban centres and metropolitan or port towns would be highly restrictive and selective.

For proper spatial distribution of branches (Table3.1) to provide comprehensive coverage for all rural areas hilly regions, sparsely populated regions and tribal areas, the criterion for the population per bank office was revised to 17000, in the branch expansion policy announced for the period 1982-85. Under this branch expansion policy, the centres for locating new office were to be identified block-wise each district so that social banking could be proceed more effectively and efficiently.

The branch expansion policy for the period 1990-1999 aimed to produce the desired results, and it was not the inclusion to have any compromise with the social objectives being pursued by the banking industry.

M. Narasimham Committee on the Financial System (1991) has laid stress on rural banking and recommended that each public sector bank should setup one rural banking subsidiary to take over all its branches and, were appropriate, swap its rural branches with those of other banks. It has recommended that branch licensing should be abolished and the matter of opening branches or closing branches (other than rural branches) be left to the commercial judgment of the individual banks[1]. According to the Committee, the move towards this devised system should be market driven and based on profitability considerations.

Measures to Promote Social Banking and Priority Sector Lending:

The commercial banks have been able to improve their priority sector lending several folds with in three decades of nationalization in 1969. The priority sectors credit as a ratio of total credit has been increased from 15 percent to 44 percent and the number of borrower has risen from 2.6 lakhs to more than 40 million. These are significant achievements made possible through:

(a) Certain policy support measures introduced by the Government and Reserve Bank of India; and

(b) The steps taken by the banks themselves by way of redesigning and strengthening their organizational structures, systems and procedures, massive recruitment of manpower, training infrastructure and the introduction of planning.

The policy support and strengthening of internal organisations have played important role in the progress of social banking and in the realisation of the objectives of nationalisation.

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[1] Narasimham Committee: Report of Committee on the Financial System; RBI Bulletin, Mumbai. Vol. XLVI. Feb. 1992: p.376.

The branch expansion policy was revamped by Reserve Bank of India and it came to be used as a device for promoting social banking and priority sectors lending. The branch licensing policies of RBI in the early stages envisaged mandatory opening of branches at rural and other unbanked centers. The rationale for opening branches at such centers was not so much the immediate return or profit, but the extension of banking facility. But at the same time, the policy has facilitated the opening of branches in a given proportion at the other centers. This policy underlined that the low return from opening branches at rural areas can be compensated by the branches at centers, which offer quicker return. Thus, the branch licensing policy initially provided that for every four branches opened in rural areas, banks were given a claim for opening one metropolitan and one urban branch.

This was based upon the assumption that the costs and low return arising form opening of branches at unbanked and rural centers would be offset by the new branches at centers having better potential. Such a policy followed during the seventies did create a large branch network in rural and semi-urban centers, which provide considerable thrust to priority sectors and rural lending.

To ensure that deposit mobilised at rural branches were deployed in rural areas, a target credit deposit ratio of 60 per cent has been stipulated. The public sector banks have already surpassed this target by 1985. The policy guidelines for branch expansion have centered around preparation of banking plans by banks in association with State Governments, the lead bank and the Reserve Bank at the stage of identifying centers. In the words of the Rural Credit Review Committee the main objective of branch expansion has to a large extent been fulfilled in the last decade and a half since nationalisation and the policy has lately been shifted from quantitative to qualitative improvement.

Liberal refinancing of priority sectors lending by banks, has been another support measure initiated for motivating banks to undertake massive lending to priority sectors. The refinance has made available at lower rate of interest so that the banks are enable to improve their liquidity and redeployed the refinanced amount to the other sectors at higher interest, thereby improving the margin.

Yet another policy device enunciated for promoting priority sectors lending has been the credit guarantee scheme. Earlier, the Reserve Bank of India (RBI) had been administrating a credit guarantee scheme for small-scale industries only. Since 1960, the adoption of a comprehensive guarantee scheme for other priority sectors was felt necessary after the nationalization of banks. A Working Group under the Chairmanship of Shri S.S. Shiralkar was constituted to recommend a credit guarantee scheme. The Working Group recommended the establishment of Credit Guarantee Corporation of India Ltd. and accordingly the Corporation was established in January 1971 with the objective of framing and implementing schemes for "guaranteeing loans and advances, deferred payment credit and all other types of financial assistance and to frame and implement schemes for identifying financial institutions and other persons against any loss or damage they may suffer on account of the grant of loans and advances, deferred payment credit, issuing guarantees and letters of credit and other types of financial assistance[1]".

For realising the objective of social control and nationalisation, the banks on their part have had to take a number of steps by way of strengthening the organization and streamlining the control systems, procedure and planning techniques. The experiences of banks in these areas are of particular relevance in the development of social banking and priority sectors lending.

The organizational structure within each bank has been modified in the line with the functional diversification of lending, spatial spread of branch network and increase in the number of clients. Three tier structures for control and supervisor have been evolved. The regional offices at the middle tier exercise direct supervision of branches under their control in compact areas. They play the triple role for:

(a) Development of business in their respective regions/ zones;

(b) Supervision over the working of branches under their control; and

(c) Communication with the Central Office on important matters concerning the branches and the region / zone.

The banks have reoriented their approach to lending after nationalization, for enabling them to extend credit to the neglected sectors on an increasing scale. A simple procedure for the grant of loans together with liberal security and margin norms has been the basic features of this approach. In case of crop loans and term

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[1] Srinivasan, R, op.cit., p.52

loans with limit up to Rs. 10,000 no margin is stipulated. For crop loans up to Rs. 1000 no security is Srinivasan R. op.cit., p.21.to be furnished by borrowers . The security norm in other case of priority sector lending are confined to hypothecation of crops or assets, mortgage of land and third party guarantees. The under lying assumptions in approach are that the borrowers do not have the capacity for providing collateral and their repayment capacity is based upon the income generated from activities financial by banks. This approach indicates a shift from security oriented lending to lending based upon the use of credit and the income generating capacity of the activity financed. Hence, the focus of credit management by banks has shifted to pre-lending appraisal about the viability of the scheme and post-lending supervision of the utilisation of credit.

The public sector banks after nationalisation have recorded an average annual addition of 2500 branches, and their clientele have increased several folds. Their functions have diversified both in rural and urban centers and banks' business volume has increased by many times. All these have been possible due to the massive recruitment of manpower for various functions including massive lending to the priority sectors. The manpower employed by the public sector banks has increased from 1.75 lakhs in 1969 to over 8.4 lakhs in the following three decades. Nearly 50 per cent of the manpower has been deployed at rural and semi / urban branches.

The function diversification of banking operation has necessitated the introduction of extensive training facilities and appropriate inputs for transforming knowledge into skills and expertise. Planning has been a virtually unknown area in Indian banking prior to social control. The planning process has been introduced following the adoption of socio-economic objectives for banking sector. Social banking entails mobilisation of deposit resources and planned allocation among different sectors and regions according to the availability of resources and taking into account the priority and targets.

Conclusion:

From the foregoing pages, it has brought that the social banking has been an integral part of Indian economic planning and social development. Development is a process of enlarging peoples capabilities and skill and banks have a distinct role to play in providing adequate and timely credit to the priority sectors and dispossessed section of the society and opening of bank branches in places hitherto and unbanked. This will encourage them to pursue productive occupations which, over a period of time, would help to create income generating assets. The need of the hour, therefore is to design a viable as well as feasible strategy for priority sectors lending. Keeping this in view, we will study the growth pattern in priority sectors lending in India in next chapter.

CHAPTER- IV

GROWTH PATTERN OF PRIORITY SECTORS LENDING IN INDIA

CHAPTER- IV

Growth Pattern of Priority Sectors Lending in India

In the preceding chapter, our attempt was to study the emergence of the concept of social banking and priority sectors in our country. This chapter is primarily devoted to a study of the growth pattern of priority sectors lending of commercial banks with special reference to State Bank of India. The analysis of the colleted data relates primarily to the trends in quantitative lending. The chapter also focuses on the targeting pattern adopted at the national level and the procedural and planning system devised and implemented by the Government for achieving the target in stipulated time. Development of wide regional disparities has been one of the burning problems in Indian economy. Their magnitude are so large as to cause concern for the Government, policy makers and institutional agencies. Such regional imbalance in economic development can be reduced if commercial banks are inspired by social purpose by providing requisite credit to the millions of small farmers, artisans and self-employed persons. Credit is the very basis of any effort to improve their meagre economic lot. Till late sixties commercial banks in India were mainly financing trade, commerce and medium and large scale industries. In order to ensure equitable distribution of credit, keeping in view the relative priorities of development, the scheme of social control over banks was initiated in December 1967. The National Credit Council was set up in February 1968, mainly to periodically assess the demand for bank credit from various sectors of the economy and to determine the priorities for grants of loans and advances, having regard to the availability of resources. After the second meeting of National Credit Council held at New Delhi on July 24, 1968, it was emphasized that the commercial banks should increase their involvement in the financing of the two components of priority sectors viz., agriculture and small scale industries as a matter of urgency. In case of the agricultural advances that would qualify for purposes of compliance with the target set by National Credit Council was prepared and forwarded to the banks in March, 1969. In case of small-scale industries, though no separate guidelines were issued it was indicated the direct loans given to the road transport operators including operators of taxis and autorikshaws, the original book value of whose investment was less then Rs. 7.5 lakhs would qualify for the purposes of compliance with the target set by the National Credit Council. Similarly, it was advised that loans for setting up of industrial estates would also qualify for such compliance. Social control was followed by the nationalization of the major commercial banks on19th July 1969 with the three main objects. Firstly, to open up new bank offices in rural and semi urban areas. Secondly, to provide funds for all productive purposes irrespective of size and social status of borrowers, and thirdly to give priority in lending to weaker sections [1].

For realising the socio-economic objective, the public sector banks have been directed by Reserve Bank of India (RBI) to increase the credit assistance to the

[1] Patel, S G,op.cit., p. 48

neglected sectors like agriculture and allied activities, small scale industries. professionals and self-employed, retailers and other small businessmen[1]. Certain minimum proportion of the priority sectors credit has to be deployed to the identified weaker sections, which include small and marginal farmers, landless and share croppers, artisans village and cottage industries, target groups under Integrated Rural Development Programme (IRDP) and Differential Rate of Interest (DRI) scheme and Scheduled Costs (SC) and Scheduled Tribes (ST). The targets and sub-targets of lending and the prescribed time frame for their achievement are indicated in table 4.1

Table 4.1

Target for Lending to Priority Sectors and Time Frame

Purpose/category	target (as% of net credit)	stipulated time achievement
1- Aggregate advances to priority sectors	40	March 1985
2-Direct lending to agriculture	16	March1987
	17	March 1989
	18	March 1990
3-Weakers section	10 (or 25% of priority sector credit)	March 1985

Source: Reserve Bank of India Report on Trend and Progress of Banking in India

[1] Srinivasan,R, op.cit., p.69.

Performance:

The Government of India from time to from and on 19th July, 1969 onwards increasingly stressed the commercial banks' role in financing priority sectors for strengthening the rural and semi urban baking structure and setting up specific targets for priority sectors, advances. Accordingly, the commercial banks had started following this direction after the bank nationalisation. There was however, grater involvement of scheduled commercial banks in financing the neglected sectors especially after 1975. Table 4.2 presents data about priority sectors lending by the commercial banks in the country between 1969 and 1999. It becomes evident from the table 4.2 that the priority sectors advance of commercial banks had increased from Rs. 505 crores in June 1969 to Rs. 126309 crores a rise of more than 249 times in March 1999 In terms of priority sectors advances as percentage of net bank credit, it had constantly increased from 15 per cent in June 1969 to 34.8 per cent in March 1999.

Under the target laid down by the Reserve Bank of India (RBI) in November, 1974. the commercial banks advances to priority sectors were to constitute at least one third of their total outstanding credit by March, 1979. Though the banks had made considerable efforts towards achieving this goal, their achievement did not measure up to the expected target of 33.33 per cent and fell short by 2.4 per cent during June, 1979. Similarly, the Reserve Bank of India further revised the target of achieving 40 per cent of the total outstanding credit to be advanced to the priority sectors by March 1985. Though the banks succeeded in achieving this target up to June 1990, thereafter the banks are unable to achieve the target laid down by the Reserve Bank of India.

Table 4.2
Trends in Scheduled Commercial Banks Advances to Priority Sectors (Between 1969-2000)
(Rs. In crore)

Year	Total Credit	Priority Sectors Credit	Share of Priority Sectors Advances in Total Credit of SCB, per cent
1969	3599	505	15.00
1971	4763	1015	21.31
1972	5480	1149	20.96
1973	6412	1478	23.05
1974	7858	1901	24.19
1975	8955	2242	25.03
1976	11476	2815	24.52
1977	13491	3488	25.85
1978	15694	4514	28.76
1979	19116	5906	30.89
1980	22068	7278	32.97
1982	30180	10975	36.40
1983	36006	12783	35.50
1984	43613	16303	37.40
1985	50921	19829	38.90
1986	57229	22844	39.90
1987	64213	26743	41.70
1988	72436	30693	42.60
1989	89080	38086	42.60
1990	105450	41497	40.70
1991	121865	44572	37.70
1992	131520	47318	37.10
1993	154838	51739	34.40
1994	166844	59097	36.50
1995	221560	69209	33.70
1996	254015	80831	32.80
1997	278401	93807	34.80
1998	324097	108905	34.60
1999	349065	126309	34.80
2000	400818	131828	32.89

Source: Statistical Table Relating to Banks in India. 1969-2000

For most of the years from 1969-1980 the annual rate of growth of priority sectors advances of schedule commercial banks had been more than 20 per cent and the priority sectors advances as percentage to total net credit steadily risen from 15 per cent in 1969 to 32.97 per cent in 1980. The priority sectors advances during 1969-1980 had increased by about fourteen times and from 1980-1999 by more than sixteen times[1].

In the total credit of all scheduled commercial banks to priority sectors the share of public sectors bank had improved from 87.3 per cent in June 1969 to as high as 94.3 per cent in June 1990 and to 95 per cent in March 1999. The share of total advances of public sectors banks to priority sectors had increased from 14.6 per cent in June 1969 to 43.5 per cent in March 2000[2].

Agricultural Advances:

India is a predominantly an agricultural country. The agriculture sector is an important segment of the national economy because about 67 percent of the people directly or indirectly dependent on agriculture, for their livelihood. Moreover, agriculture commodities comprises almost 80 percent of the total consumer expenditure. Finance for agricultural purposes was generally provided by the co-operative banking system under the patronage of the State Governments and the Reserve Bank of India. It was only from 1955, when the Imperial Bank of India was

[1] Patel. S G, op.cit., p.65

[2] RBI. Report on Currency and Finance 2000.

converted into State Bank of India, that commercial banks started financing for agricultural purposes[1].

Commercial bank's participation in the financing of agriculture and allied activities has been a significant and revolutionary change in India banking since the nationalisation of major banks. The banks have penetrated into the countryside by opening their branches in rural and semi-urban areas. They have adopted their lending policies and practices to suit the needs of their rural clientele. Of course, the motivating force behind this transaction has been the Reserve Bank and the Government, which provides the operational guidelines, introduced the system institutional guarantee, and reduced the risks involved in financing agriculture. Agricultural finance includes both direct finance to cultivators as well as indirect financing through provision of credit to manufacturers and suppliers of agricultural implements, fertilizers, pesticides, etc. Banks were directed to increase the share of direct advances for agriculture and allied activities in their total credit to 18 percent by March 1990, and also to ensure that their advances flow to the weaker sections in the countryside on an increasingly scale and at cheaper cost.

Direct Finance:

Short-term loans for raising crops (crop loans), advances up to Rs. 5000 to farmers against pledge/hypothecation of agricultural produce for a period of not exceeding 3 months and development needs are as follows:

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[1] Srivastva P. K. op.cit., p.307

(i) Purchase of agricultural implements and machinery including transport equipment,

(ii) Development of irrigation potential,

(iii) Reclamation and land development schemes,

(iv) Construction of farms buildings and structures, etc.,

(v) Construction and running of storage facilities,

(vi) Production and processing of hybrid seeds of crops,

(vii) Payment of irrigation charges etc.,

(viii) Other types of direct finance to farmers, e.g., short-term loans to non-traditional plantations, horticulture and allied activities such as dairying, fishery, piggery, poultry and bee keeping.

(2) Indirect Finance: indirect finance to Agriculture is available for the following purposes:

(a) Credit for financing the distribution of fertilizers, pesticides, seeds etc,

(b) Loans to electricity board for reimbursing the expenditure already incurred by them for providing low tension connections to individual farmers for energizing their wells.

(c) Loans to farmer through PACS, FSSC and LAMPS.

(d) Other types of indirect finance are as follows:

(i) Finance for hire-purchase schemes for distribution of agriculture machinery and implements.

(ii) Loans for construction and running of storage facilities in the producing areas.

(iii) Advances to customer service units managed by individuals, institutions or organisations who maintained a fleet of tractors, bulldozers, well-boring equipment, threshers, combines, etc., undertaken work from farmers on contract basis.

(iv) Loans to individuals, institutions or organizations who undertake spraying operations,

(v) Loans to co-operative marketing societies, co-operating banks, for re-lending to co-operative marketing societies.

(vi) Loans to co-operative banks of producers,

(vii) Financing the farmers indirectly through the co-operative system (otherwise than by subscription to loans and debenture issues)

(viii) Loan to agro-industries corporations,

(ix) Advances to agricultural finance corporations and

(x) Advances to State-sponsored corporations for onward lending to weaker sections.

An Analysis of Agricultural Advances:

Data on sectoral development of priority sector credit of commercial banks is presented in table 4.3. From the table 4.3 it may be observed that in pre-bank nationalisation period, the priority sectors credit of commercial banks to agriculture and allied activities was only just Rs. 188.00 crores in June, 1969.

Table 4.3
Trends in Advances of Commercial Banks in Sub-Sectors in Priority Sectors (1969-2000)

(Rs. in crores)

Year	Agricultural Sector		Small Scale Industries		Other priority Sectors		Total Priority Sectors	
	Outstanding Priority sectors	% to total Priority Sectors	Outstanding amount	% to total Priority Sectors	Outstanding amount	% to total Priority Sectors	Outstanding amount	% to total Priority Sectors
June 1969	188	37	286	57	30	6	505	100.00
// 1979	2459	41	2820	48	629	11	5908	100.00
// 1980	3097	42	3391	47	790	11	7278	100.00
// 1990	16939	41	15672	38	8419	21	41030	100.00
March 1999	42375.34	36	51679.28	39	26494	19	115960	100.00
March 2000	44381	33.6	52814	40	34632	26	131827	100.00

Sources:

1. Statistical Tables Relating to Banks in India 1969-2000.
2. Report on Trends and Progress of Banking in India 1969-2000.
3. RBI, Bulletin 1969-2000.

After the bank nationalization due to directives issued by the Reserve Bank of India, the commercial banks stepped up their agricultural sector credit to Rs. 2459.00 crores or by about thirteen times during the June 1979 and even than the agricultural advances had hardly covered 10 per cent of the requisite farm credit requirements of the agriculturist and thus, suggested a tremendous scope for extension of farm credit. As a step in the right direction the share of agricultural sector credit in the total priority sectors advances consistently increased from 37 per cent June 1969 to 42 per cent in June 1980. The agricultural sector credit of commercial banks increased at an annual growth rate of 23.93 per cent during the period 1969 and 1980.

The share of agricultural credit of priority sectors, however, witnessed a downward trend and reached to 33.6 per cent in March 2000. The share of agricultural credit in total net credit of commercial banks had gone up from 5 per cent in June 1969 to 17.4 per cent in June 1990. It progress howevėr, the retreated to 11 per cent in March 2000. Such shrinkage in the share of agricultural advances in the aggregate net bank credit after 1991 was to a large extent consequence of the impact of the operation of the Agricultural and Rural Development Relief scheme of 1990 of the Government of India.

In the total agricultural advances of the commercial banks, the public sectors bank claimed a lion's share during all the year, which increased from 86.2 per cent in June 1969 to 95.2 per cent in March 2000. Taking into consideration, the public sector banks advances to agricultural sectors increased from Rs. 162 crores in June 1969 to 41075 crores in March 2000 (Table 4.4) and in relative term from 5.4 per cent in June

Table 4.4

Trends in Advances to Priority Sectors by Public Sectors Banks (1969-2000)

(Rs. in crores)

Sectors	June 1969	June 1979	December 1985	June 1990	March 2000*
I. Agriculture	162	2221	8738	26434	41075
	(5.4)	(15.0)	(18.2)	(18.0)	(15.2)
a) Direct Finance	40	1678	7361	15238	32042
	(1.3)	(12.0)	(15.3)	(16.7)	(11.9)
b) Indirect Finance	122	543	1377	1151	9033
	(4.1)	(3.9)	(2.9)	(1.3)	(3.3)
II. Small Scale Industries	257	2473	7375	14127	43560
	(8.5)	(17.7)	(15.3)	(15.5)	(17.6)
III. Other Priority Sectors	22	539	4431	8089	30632
	(0.7)	(3.9)	(9.2)	(8.9)	(8.6)
Total Priority Sectors (I+II+III)	441	5233	20544	38649	115267
	(16.4)	(37.3)	(42.7)	(42.3)	(42.7)
Total Bank Credit	3016	13997	48067	91302	269650
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

Note: * Provisional

Source 1) RBI, Report on Currency and Finance, 1969-2000.

2) RBI Statistical Table Relating to Banks India, 1969-2000.

Note: Figures in brackets represent percentage to net bank credit.

1969 to 18 per cent in June 1990. It however, consistently declined to 15.2 per cent in March 2000.

The banks through their credit deployment provided significant support to the process of modernisation of agriculture based on extension of area under high yielding varieties, development of irrigation and allied agriculture activities such as horticulture dairy farming pisciculture, etc.

Within the agricultural sector, the most perceptible increased was registered in the direct finance to the farmers. In absolute terms direct finance to farmers of the public sector banks enhanced from Rs. 40 crores in June 1969 to 32042 crores or by about more than 792 times during March 2000 Table 4.4. The increase in the share of direct finance to agriculture in total agriculture finance was at the cost of the share of the indirect finance to agriculture. The share of indirect finance to agriculture in total agriculture finance of the public sector banks reduced from 75.3 per cent in Jùne 1969 to a level of 22.0 per cent in March 2000. In case of case of direct finance to agriculture, the share of finance provide to borrowers with credit limit below Rs. 25000 was as large as two third which suggests that quite a significant proportion of small and marginal farmers would have been covered by the banking system in June 1990.

Apart from direct financing of agriculture, the banks in the country have also through other poverty alleviation programmes like Integrated Rural Development Programmes (IRDP), Differential Rate of Interest (DRI) Scheme, etc. especially in rural and semi urban areas.

The share of direct advances to farmers by the public sector banks in their total advances during December 1985 was 15.3 per cent table 4.3, which was higher than the target of achieving the 15 per cent by March 1985. Similarly, as against the set target of achieving 16 per cent of total lending to farmers directly by the end of March 1987, the achievement of public sector banks as regards direct finance to farmers was 16.7 per cent during June 1990. The target for direct finance to agriculture set at 18 per cent of net bank credit to be attained by March 1990. As against this target the achievements of public sectors banks not only remained lower but also had been declining over the years from 1990 onwards. This proportion which was 16.7 per cent as at the end of June 1990 declined to 12.8 per cent by March 1999.

Advances to Small Scale Industries:

Small-scale industries have been assigned a distinct role in economic development of India. It may be stated that the importance of small-scale industries as an effective instrument for creating employment opportunities within the limited range of capital requirements has been realized in all developed and developing countries in the world.

This Small-scale sector is composed of small road and water transport operators, small -scale industries and setting up of industrial estates. The advances of commercial banks to this sector had increased from Rs. 286 crores in June 1969 to Rs. 52814 crores or by about 183 times during March 2000 (Table 4.3). The data about advances to this sector by the public sector banks have been presented in Table 4.4. The public sector banks advances to small-scale industries sector had consistently increased from Rs. 257 crores in June 1969 to 42674 crores in March 1999 i.e. a rise of 165 fold (Table 4.4). In terms of its share in total advances of public sector banks, barring only 8.5 per cent share in June 1969 which increased to 17.3 per cent in March 2000.

Advances to Other Priority Sectors:

In the priority sectors, other priority sectors comprising of retail trade and small business, professionals and self employed persons and education, as they are less important as compared to agriculture and small-scale industries. The advances of public sectors banks to other priority sectors, which were only Rs. 22 crores during June 1969 and had increased to Rs. 30632 crores or by more than 1573 times in March 2000 (Table 4.4). Thus its share in total advances increased from 0.7 per cent in June 1969 to 8.6 per cent in March 2000.

Advances to Weaker Sections:

The weaker sections of the priority sectors comprised of (i) small and marginal farmers with land holding up to 5 acres, landless laboureres tenant farmers and share croppers. (ii) artisans, village and cottage industries enjoying credit limit up to Rs. 25000, (iii) IRDP, DRI SEPUP beneficiaries and (iv) beneficiaries belonging to Scheduled Cost and Scheduled Tribes. This sector also include indirect finance i.e. loans granted to organizations established for the development assistance to physically handicapped and Scheduled Castes and Scheduled Tribes or engaged in promotional and marketing activities of artisans, village and cottage industries etc. Outstanding bank credit given to Scheduled Castes/Scheduled Tribes and weaker sections in respect of housing and consumption were also included under priority sectors advances.

The share of advances to weaker section in total bank credit worked out 11 per cent at the end of June 1990. At the end of March 2000 the advances of public sector banks to weaker section stood at Rs. 21145.00 crores or constituting 7.22 per cent of their total net bank credit as against set target of covering 10 per cent.

Recent Guidelines of Reserve Bank of India:

In December, 1997, Reserve Bank of India has issued the following guidelines to the banks to improve the credit delivery system for agricultural credit:

(1) Banks should ensure that pre-sanction appraisal of the borrows should focus on an income stream of the borrower, his creditability, his capability for taking up the proposed activity, his integrity and the technical aspect of the proposal.

(2) Banks have been asked to introduce composite cash credit limits to all agricultural borrowing facilities.

(3) Disburse all loans for agriculture purposes in cash. It will enable the borrowers to choose the dealer himself and an environment of trust will be created.

(4) Production of 'no dues certificate' from banks/institutions by borrowers, should not be a compulsory requirement.

(5) Banks should ensure that the value of security taken is commensurate with the size of the loans. They should not ask additional collateral by way of guarantors where the total land mortgaged is considered adequate.

(6) Bank should use their discretion on matter relating to margin /security requirements for agricultural loan above Rs.10000.

(7) Bank should furnish the borrowers with a statement of the credit facilities availed by him and various fees and the charges should be separately indicated there in

(8) Banks to ensure that farmer are given the right advice regarding cultivation of crops, inputs to be used etc.

(9) Banks should design specific loan product to the borrowers in non-farm sector. It will enable them to pursue a number of non-agricultural activities along with agricultural activities.

(10) Banks should delegate adequate power to the branch managers so that 90 per cent of loan applications are disposed of at the branch level.

(11) Banks should evolve an appropriate mechanism to monitor performance in respect of agricultural loans, particularly in regard to old sticky loans

Poverty Alleviation Programmes – An Evaluation:

In the early stage of economic development, it was believed that benefits of economic development would automatically be transmitted to the lowest of the lader But it was proved illusory. It was, therefore felt that there should be specific programmes designed to alleviate poverty through both self employment and wage employment. Various poverty alleviation programmes have been adopted specifically to direct the flow of resources to the poorer sections of the society. The public sector banks have been actively participating in the schemes in addition to those formulated and implemented by each bank. The experience of public banks in implementing various programmes is mentioned below.

(i) Integrated Rural Development Programme (IRDP):

India is predominantly a country of villages and poverty is a major problem in the rural areas. To alleviate poverty, "Integrated Rural Development Programme" (IRDP) was started in the year 1978-79 in 2300 block. On 2nd October 1980, this programme was extended to all the 5011 block of the country. Under this programme, the poorest of the poor are assisted by providing loans, subsidy and training if needed, to enable them to employ themselves gainfully, to earn more income to cross the poverty line[1]. Under this programme, it is expected that 600 families in each block are to be benefited every year. The programme shall be operated through District Rural Development Agency (DRDA) and all banks viz., Commercial Banks inclusive of Regional Rural Banks and Districts Central Co-operative Banks.

There are several dimensions of the programme namely integration of sectoral programmes, spatial integration and the integration of socio-economic process and the

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[1] Juneja N K op.cit.p.43

policies. The programme has been conceived so as to achieve a better combination of growth, removal of poverty and employment generation. More specifically, it involve a sharp focus on target groups comprising small and marginal farmers, agricultural labourers and rural artisans and location specific planning in rural areas. Within the overall strategy of development, "Integrated Rural Development Programme has been conceived as an anti-poverty programme." The IRDP emphasizes on asset transfer for generating self-employment and for increasing income. The National Rural Employment Programme is designed to provide wage employment to fill in the periods of seasonal and sporadic under-employment. It is intended to enlarge absorptive capacity of labour in rural areas in non-agricultural occupations by creating infrastructures which help to increase the productivity of the economy.

Accordingly to the 38th National Sample Survey (1983) there were over 40 million rural households below the poverty line rèckoned at Rs.6400 by the survey. Empirical studies conducted by the Planning Commission and others like the Institute of Financial Management and Research have indicated that the Incremental Capital Output Ratio (ICOR) in the case of financing under the programme is in the block/district. On this basis, the incremental income from assets financed with help of bank credit and subsidy comes to Rs.2,000. Thus the assumption is that if the initial household income is Rs. 4,800, then gross income may be around 6,8,00 as a result of undertaking the activity financed. This, however, does not take into account the repayment aspect of the term loan.

The progressed of IRDP reveals that during the Sixth Plan period 16.6 million households were covered. In the Seventh plan a largest of 20 million has been fixed. This largest includes the 10 million assisted in the sixth plan, who are eligible for a second dose of assistance. About 14.9 million families of 20 million target have been covered during first four years of the plan. The progress of IRDP is shown in the Table 4.5.

Table 4.5

Trends in Disbursement Performance of Banks Under IRDP (1980-99)

Year	No. of Beneficiaries	Rs. in crores
1980-81	27.27	289.05
1983-84	36.85	773.51
1986-87	37.47	1014.88
1989-90	33.51	1220.53
1992-93	20.69	1036.80
1994-95	16.25	1054.31
1997-98	16.97	3097.00
1998-99	12.68	2516.00

Sources 1) Reserve Bank of India Report on Currency and Finance 1980-99

2) Government of India, Ministry of Rural Development Annual Report 1980-99

The quantitative achievements do not reflect the quality of performance. In the words of Prof. Khusro, committee the targets are achieved mainly because the banks have been compelled to do so. In fact the considerable importance has been attached by the Government of India and other authorities to ensure that IRDP targets are achieved by the banks without failed and this message has percolated down to the field level. Several relaxation have been made by Reserve Bank of India (RBI) in respect of eligibility criteria, procedure rate of interest, collateral security and guarantee for the loan in view of the special status accorded to IRDP loans. These concessions have been extended despite the fact that viability of many of these loans is open to question and recovery performance has been none too satisfactory.

There are four major all India studies on the implementation of IRDP. These are National Bank for Agriculture and Rural Development (NABARD) RBI, Programme Evaluation Organisation (PEO) of Planning Commission and the Institute of Financial Management and Research (IFMR). Most of the studies referred to above have revealed that there was wrong identification of beneficiaries.

The major objectives of IRDP are as follows:

1. To provide full and gainful employment.
2. To achieve at least 50 per cent increase in agricultural production.
3. To revive/intensity traditional rural industries.
4. To facilitate development of cottage and small-scale agro based industries.
5. Full development of available local resources.

6. To ensure that weaker sections of society are enable to participate in the development process, and
7. To transform Indian rural society from traditional way of living to modern way of living, etc.

According to the NABARD[1] study, 82 percent of sample household received incremental income, while it was 88 percent in the case of the sample covered by the PEO study, and 84.2 percent in the case of the IFMR study. The RBI study indicated a lower ratio of 51 per cent. It must be noted that it is not possible to expect each and every assisted family to cross the poverty line. This objective is rendered even more difficult owing to the fluctuations in prices, weather conditions and technologies. A more appropriated criteria for evaluation could be the net increase in income and the extent to which the assisted families progressively climbed to the next higher income from the pre-investment income bracket.

In this respect, a disquieting feature that has been brought out by the evaluation studies is the performance of the lowest income group beneficiaries. According to

[1] Srinivasan R, op. cit., p.88

RBI study only 5 percent of the lowest section of the poor could cross the poverty line are as follows:

(a) The very low pre-assistance income;

(b) The incremental income through asset endowment not sufficient to cover the gap because of the low level of investment per household; and

(c) Lake of institutional or organisational support in the post investment stage. Some of the social benefits that have accrued as revealed by various evaluation studies of IRDP are worth noting though these are not easily quantifiable.

The IRDP has helped creation of assets in a society in which an asset less person with irregular employment and income is a non- person in the rural Indian social structure. It was reveled by the PEO study that 90 per cent of beneficiaries were happy that they benefited from the programme, 90.7 per cent felt that they could by gainfully employed, 88 per cent experienced improvement in income, 77 per cent felt that their consumption level improved and 64 per cent felt that their status in the village society went up due to the acquisition of asset.

(ii) The Self Employment Programme for Urban Poor (SEPUP)

An introduction of new poverty alleviation programme in September 1986, which aims at providing self-employment opportunities to the poor living in metropolitan urban and semi urban centers. The programme is designed to lift the urban poor above the poverty line engaging them in diverse self employment ventures with financial assistance from bank and subsidy from Government. Persons with family income not exceeding Rs. 600 per month are eligible for assistance under the program. The maximum loan amount is Rs. 5,000/- per beneficiary and carries an interest rate of 10 per cent. The programme is implemented through selected branch of public sector banks in urban and metropolitan centers having population in excess of 10,000 according to the 1981 census. There is a committee of bankers constituted each city and town and local committee select the branches to be involved in implementing the programme and fixing the target, number of beneficiaries to be assisted. The total amount sectioned under this scheme was 609 crores (Table 4.6). The scheme introduced was extended till 1991-92 thereafter, the scheme was discontinued. The implementation of the programme has been rather tardy. A quick study of the programme conducted by the Reserve Bank of India has identified some shortcomings in its implementation including the performance of the bankers committees in sponsoring scrutinising application and considerable delay in disbursement of loans.

There are other shortcomings as well. While the maximum amount of loans of Rs. 5000 under the programme appears to be adequate for most self employment ventures, the same has been found inadequate in certain metropolitan cities. For example an evaluation study of the Scheme carried out by the Punjab National Bank at Ahmedabad reveled that 32 per cent of respondents has complained about the inadequacy of the loan amount[1]. It may be noted that the maximum finance under the programme is lower than that under IRDP though there are many activities under both programmes, which are identical.

Various studies have revealed that the impact of loans was the highest in the case of larger loan amount groups of beneficiaries. To some extent this indicates that in urban and metropolitan areas larger amount loan is associated with better viability and income generating capacity of venture. The cost of premises has been higher in urban areas.

Table 4.6

Performance of Public Sector Banks Under Self Employment Programme for Urban Poor (SEP-UP)
(Introduced in September 1986)

S.No.	Year Ended	Target (000's)	Sanctioned	
			No. of Accounts(000's)	Amount (Rs. in crore)
1	1986-87	500	341	116.14
2	1987-88	500	382	132.29
3	1988-89	500	357	136.55
4	1989-90	500	357	126.26
5	1990-91	250	119	50.44
6	1991-92	250	111	48.86

Note: This Programme has been discontinued from 1992-93

Sources: Reserve Bank of India Currency and Finance 1986-92

[1] Srinivasan R. op.cit.,p.90

Though the experience is limited, it is noticed that in the SEPUP scheme the incidence of misutilisation and diversion of funds seems to be minimal as reveled by the studies conducted by banks. The PNB study indicated that 87 per cent of beneficiaries had properly utilised the loan amount and only 13 per cent diverted the loan to other uses[1].

(iii) Self Employment Scheme for Educate Unemployed Youth (SEEUY):

This scheme was introduced on 15th August 1983 has been extended to all areas of the country except cities with population of more than 10 lakhs as per 1981 census. The annual income of family of the beneficiary under this scheme should not exceed Rs. 10, 000 and only one member from the family gets assistance under the scheme. The objective of this scheme is to encourage the educated unemployed youth to undertake self employment ventures in industry, service and business through package of assistance. For this scheme District Industries Canters and Lead Bank function as nodal agencies while the selection of beneficiaries is done by Task Force. This scheme covers all educated youth who are minimum matriculates (Std. X passed) as also ITI passed youth in the age group of 18 to 35 years.

Out of the total sanctions, 30 per cent of the sanctions are reserved for Scheduled Castes/ Scheduled Tribes. The task force identifies the beneficiaries under the scheme and they are granted loans to the extent of Rs. 35, 000.

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[1] Srinivasan R, op.cit., p.90

The scheme is implemented by the public sector banks in collaboration with the District Industries Centres (DICs) which are the nodal agencies for formulation of self employment plans and their implementation at the district level. The applications received by the DICs are scrutinised by the special Task Force and those found eligible by the Task Force are allotted among the participating banks. It is the banks which carry out the appraisal, assess the economic viability and undertake pre-sanction inspections. The Table 4.7 shows the trends in disbursement of loans under the SEEUY scheme. Thereafter this scheme has renamed as Prime Minister Rozgar Yojana (PMYR).

Table 4.7

Trends in Disbursement of Loans Under SEEUY Scheme (1983-93)

Year	No. of Beneficiaries (Lakhs)	Amount sanctioned (Rs. In Crores)	Target Number (Lakhs)
1983-84	2.42	401	2.50
1984-85	2.06	3.90	2.50
1985-86	2.21	4.30	2.50
1986-87	2.19	4.55	2.50
1987-88	1.01	259	1.25
1988-89	1.91	404.62	2.50
1989-90	1.08	227.78	1.25
1990-91	0.98	193.98	1.25
1991-92	0.94	206.00	1.25
1992-93	0.72	146.00	1.00

Note:- This programme has been subsumed with PMYR since 1 April, 1994

Source: Reports on Currency and Finance, RBI 1985-93.

One feature of the scheme is its ad hoc nature. It was introduced initially for one year, in 1983-84. The scheme was then extended year after year till 1985-86. It was further extended till 1992-93. Apparently, this has been one of the factors responsible for the tardy implementation of the scheme and the failure to achieve the targets.

Recent studies[1] by banks on the implementation of SEEUY scheme bring out several deficiencies including selection of ineligible borrowers, inadequate income generation and misutilisation of bank loans. Many beneficiaries were not really unemployed at the time of availing the loans. The ratio of misutilisation of loans is as much as 25 percent in the case of beneficiaries engaged in small industries. Due to the deficiencies in appraisal of market conditions the incidence of under utilization of the assets created with bank loans has been high. There were also failures of the projects owing to market saturation.

Another feature that has been brought out by the studies is low recovery with only 33 percent of beneficiaries being regular in repaying monthly installments. The use of profit for expansion of the business and recycling of internal funds for meeting the working capital requirements of the beneficiaries affected recovery as much as the inadequate follow-up by the implementing bank branches[2].

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[1] Srinivasan R, op.cit., p.91
[2] Ibid.

It has been further revealed that the scheme was launched for implementation without assessing the potential for various activities and services in different areas. The DICs are required to formulate location specific plans of action, based on realistic demand assessment for various services and projects. But the studies reveal that in the absence of market surveys, financing under the scheme was not systematic. In respect of same activities, more than the desired number of beneficiaries were financed leading to under-utilistation of assets, poor business turnover and lower than expected income generation.

Yet another deficiency of the scheme is that it has not envisaged the need for providing working capital on a continuous basis, the assumption being that the beneficiaries would use the income generated from investment for meeting the working capital requirements. In the absence of built-in provision for adequate working capital finance some beneficiaries were forced to borrow from non-institutional sources.

Lack of marketing support for products manufactured by small units has been observed to be another deficiency of the scheme. In the urban areas, in particular, the small units have not been able to compete with the large units. Yet another problem that has caused sub-optimal utilisation of assets is the irregular availability of raw materials. Though DICs are required to meet part of the raw material needs of assisted units, the commitments in this respect have hardly been met.

Deficiencies have been noticed in the sphere of entrepreneurial training given to applicants. Many applicants lacked even the basic knowledge of marketing, maintenance of accounts and financial management. The appraisal of entrepreneurial quality as well as viability of the projects suffered due to the bunching of loan applications at the end of the year, leaving very little time for the implementing bank branches to undertake scrutiny and appraisal. It is noticed that due to bunching of applications and the anxiety to reach targets, the implementing agencies have not been able to adhere strictly to the guidelines issued by the RBI.

Under the scheme, the Task Force comprising of representative of DIC and the lead bank has been entrusted with the responsibilities of motivating and selecting entrepreneurs, identifying suitable schemes, recommending loans for selected entrepreneurs and assisting them in getting speedy clearance from the concerned authorities. But in actual practice, the Task Force has been merely engaged in collecting and processing applications and in distributing them to banks for implementation. Guidance to applicants in selection of activities/schemes is hardly given. Hence, the DICs have apparently been functioning only as exchanges for receiving and disposing of applications.

Providing self-employment to educated unemployed youth is a laudable objective and the SEEUY scheme undoubtedly is a programme with considerable potential for achieving this objective. Towards this end, it is essential that the DICs undertake potential surveys and assess the market for different activities so as to help the participating banks to improve the appraisal of the projects and thus the quality of advances. It is necessary that the district wise targets for lending are formulated on the basis of realistic demand assessment.

The organizational structure of DICs needs to be strengthened for this purpose The scale of financing needs to be revised in view of the persistence of cost inflation The experience of banks indicates that the average requirements of beneficiaries often exceed the stipulated loans. Similarly, the lack of infrastructure facilities is the main reason for the slow progress of the scheme. Amenities like power, water supply marketing facilities and constructed sheds are of crucial importance for improving the effectiveness of credit delivery and quality of bank lending. The inadequacies of linkages and facilities have been responsible for incidence of increasing failure of many ventures financed under the scheme.

(iv) Differential Rate of Interest Scheme (DRI):

The Government of India announced a scheme on March 25, 1972, known as the Differential Rate of Interest (DRI) scheme for the people in backward areas The scheme of DRI was launched by public sector banks in 163 selected districts in the country. Within a year, the operation of the scheme was extended to 256 districts, and later to the entire country in 1977.

The scheme aims at augmenting the income of the weaker sections of society by engaging them in productive small enterprises with financial support from banks The underlying objective is to render the target groups self-reliant by reducing to the extent possible the dependence on wage labour.

Bank assistance is made available to the poorest of the poor, and in this respect the aim of the DRI scheme is identical to that of other poverty alleviation programmes While under the scheme, eligible borrowers have access to loans from public sector banks, there is no subsidy as in the case of IRDP, SEPUP and SEEUY. Loans under the scheme are granted at the highly concessional interest rate of 4 per cent.

The DRI scheme is designed to cover persons belonging to the following categories :

(1) Scheduled Castes/Scheduled Tribes engaged in agriculture and allied activities.

(2) Persons engaged in cottage industries and other small business activities;

(3) Indigent students desirous of going for higher education; and

(4) Physically handicapped persons for pursuing gainful occupations.

Loans under the scheme are provided to voluntary organisations corporations and co-operative societies. Initially the maximum loan amount under the scheme was fixed at Rs. 2,500, Rs. 2,000 as term loan and Rs.500 as working capital. Later the loan amount was raised to Rs.6,500 comprising of Rs. 5,000 for purchase of assets and Rs. 1,500 as working capital. The income eligibility criterion has undergone revision from time to time. At present, the income eligibility is up to Rs. 6,400 per annum in the case of rural households and Rs.7,200 for urban households.

The Government of India has stipulated that the advances under DRI scheme should be 1 per cent of total advances of public sector banks as at the end of the previous accounting year. Of the DRI advances, a minimum 40 per cent should be made to scheduled Castes and Scheduled Tribes, and the rural and semi-urban branches should account for two thirds of the advances granted under the scheme. The progress of lending under DRI scheme by public sector banks is shown in the table 4.8 below:

Table 4.8

Performance of Public Sector Banks under Differential Rate of Interest Scheme (DRI) (1972-2000)

Sr.No.	Year Ended	No. of borrowal Accounts (000's)	Amount outstanding (Rs in crores)	DRI Advances as % of Total Advances
1.	Dec. 1972	26	0.87	0.2
2	Dec. 1973	230	10.00	0.2
3	Dec. 1974	313	13.00	0.2
4	Dec. 1975	465	21.00	0.3
5	Dec. 1977	625	29.00	0.3
6	Dec. 1977	1177	54.00	0.5
7	Dec. 1978	1620	90.00	0.7
8	Dec. 1979	2085	141.00	0.9
9	Dec. 1980	2510	194.00	0.8
10	Dec. 1981	2925	258.00	1.0
11	Dec. 1982	3222	305.00	1.1
12	Dec. 1983	3744	368.00	1.1
13	Dec. 1984	4271	441.00	1.2
14	Dec. 1985	4318	463.00	1.1
15	Dec. 1986	4797	561.00	1.1
16	Dec. 1987	4814	598.00	1.1
17	Mar. 1988	4808	622.00	1.0
18	Mar. 1989	4767	680.00	0.9
19	Mar. 1990	4229	703.00	0.9
20	Mar. 1991	3511	621.00	0.7
21	Mar. 1992	3126	705.00	0.7
22	Mar. 1993	2905	705.00	0.6
23	Mar. 1994	2421	682.00	0.5
24	Mar. 1995	1947	683.00	0.5
25	Mar. 1996	1552	678.00	0.4
26	Mar. 1997	1429	655.00	0.4
27	Mar. 1998	1523	716.00	0.5
28	Mar. 1999	1631	507.00	0.6
29	Mar. 2000	1725	432.82	0.18

Sources:
1) Reserve Bank of India Report on Currency and Finance. 1972-2000.
2) Reserve Bank of India Statistical Tables Relating to Banks in India1972-2000.

Over the years with the introduction of other poverty alleviation programmes, mainly IRDP, and recently the SEPUP, involving bank loans and subsidies, the significance, the DRI scheme has been on the wane. Moreover, the lending is not schematic unlike other programmes. The lending effort by banks has not been picking up, which is to some extent due to the fact that the banks have already attained the 1 per cent target. The low rate of interest, the widely dispersed financing of very small borrowers making follow-up and recovery effort somewhat unproductive and cumbersome have been other discouraging features of the scheme. Considerable light is thrown on these aspects of DRI lending by the evaluation studies carried out by various public sector banks. The following deficiencies in the operation of the scheme have been identified[1].

(1) Varying proportions (10 to 20 per cent) of sample beneficiaries were found ineligible. The identification of eligible beneficiaries has been a major problem, thus reducing the impact of the scheme.

(2) Though the loan limits stand raised, the loans disbursed under the scheme have not been adequate in many cases to sustain viable activities. The proportion of inadequacy of loan amount reported by beneficiaries is as high as 28 percent.

(3) Diversion/misutilisation of loans under the scheme has been a major problem. The studies have revealed that over 30 percent of borrowers were not engaged in the activities for which they were financed, because they had either lost or

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[1] Srinivasan,R, op. cit., p.95

disposed off the assets or the physical assets were idle. The performance of new entrants to self-employment ventures is particularly disappointing. It has been revealed by these studies that 50 percent of such borrowers abandoned the new activities for which they were financed. The ratio of those who abandoned the activities nevertheless was much lower at 14 per cent in respect of financing for expanding existing activities.

(4) While the scheme has achieved a measure success in providing additional employment, raising family income and improving standards of living of the beneficiaries, the recovery performance has been dismal. In some cases only about one fourth of the beneficiaries have been found to be regular in paying loan installments.

(5) A significant aspect revealed from the evaluation studies is that there is a lack of awareness among beneficiaries about the rate of interest charged on advances under the scheme. The low rate of interest has not been a significant factor either in the proper utilisation of the loan amount or in repayment. On the other hand, virtually all the beneficiaries are aware of the subsidy given by the Government under various rural development programmes and accordingly indicated a preference for subsidy linked schemes thereby reducing the appeal of the DRI scheme which does not provide for subsidy.

The participating bank branches have not been able to exercise adequate care in selection of target groups, supervision over utilisation of loans, quality of assets purchased and utilisation of the assets. This is due to the small amount of loans and large number of beneficiaries financed under the scheme. In many cases, the loans given have been insufficient to meet the requisite financial requirements.

The DRI scheme was introduced at a time when there was no other target oriented scheme aimed at improving the economic conditions of the poorest sections. With the launching of IRDP in the late seventies and introduction of other poverty alleviation programmes like SEPUP in the eighties, covering more or less identical target groups and involving more or less similar norms and conditions of lending the DRI scheme has been losing its importance. There is growing preference among the target groups for subsidy linked loans, and this has been a major factor inhibiting the extension of borrower coverage under DRI schemes.

Ninth Five Year Plan Perceptions:

The Ninth Plan not only recognises the critical role of priority sectors in the future growth strategy but it also specifically stress the imperative of enlarging the flow of credit to these sectors. Of the nine objectives of the plan the following two are of direct relevance in this context. (i) Priority the agriculture and rural development with a view to generating adequate productive employment and eradication of poverty and (ii) Ensuring food and nutritional security for all, particularly the vulnerable sections of the society.

On the specific issue of credit, the Plan document is categorical. Greater credit flow will be ensured to meet the investment requirements of the farming community for stepping up the growth of production. Efforts will be made to ensure timely and adequate availability of credit, particularly to small and marginal farmers and tribal farmers at reasonable rates so as to enable them to make investments necessary for higher production. Again in every district, the Rural Infrastructure Development Fund (RIDF) must be used to cover projects which encourage group of small farmers, artisans and landless labourers to organise for skill up graduation, processing and transport infrastructure quality improvement or centered round large agro based projects or identified sources of regional, national and export demand.

Similarly, in the case of small-scale industries credit flow to this sector will be augmented. The financial institutions will be motivated to offer factoring services to SSI in addition to the present system of discounting bills. The dichotomy between the perceptions of the Ninth Plan and credit policy pursued during 1991-96 is thus obvious.

The main theme here is that priority sectors are and will continue to be, the bread and butter, literally and figuratively of Indian economic growth. A 4 per cent growth in the agricultural sector is a prerequisite for a sustained increased in real GDP of 7 per cent or more. In the SSI sector capacity under utilisation is as high as 50 per cent and one of the main reasons for under utilisation is inadequacy of credit. Credit support to the priority sectors should therefore continue to occupy a pre-eminent position on the agenda of public sector banks and financial institutions.

While the Ninth Five Year Plan perceptions clearly emphasises the main imperative need for providing adequate credit support to priority sectors, it is the credit policy, which is at fault. The phase 1991-96 would in fact be regarded as an unhappy episode in the history of monetary and credit policies not only was the quantum of credit flowing to these sectors inadequate but also the interest rate regime become unfriendly. Fortunately winds of change blowing in the Reserve Bank of India as the more recent appointment of two committees to look into the problems of credit flows to these sectors clearly demonstrate. No doubt commercial banks have re-attained the priority sectors credit target in 1996-99 but it is the mindset of the bankers which is yet to be change. Commercial banks have such an excellent track record penetrating in the rural sector and in reaching out to the masses of small borrowers. It should not be difficult for them to rediscover their sense of commitment to development.

Conclusion:

From the foregoing pages it is seen that the priority sectors lending concept emerged after the nationalisation of banks on 19 July, 1969 as a major directed programme of directed credit to hitherto neglected key sectors of he economy. The setting of lending targets for priority sectors has had a very positive impact on the channelising of credit to hitherto neglected sectors of the economy.

Priority sectors lending has becoming one of the most active instruments of the policy. The performance of public sector banks is better than other commercial banks in achieving the target laid down by the Reserve Bank of India from time to time. Various attempts have also been made not only to dilute and broaden the norms of the priority sectors lending, but also to loosen monitoring of performance in this regard.

As a result, the percentage of credit channeled to priority sectors of the economy has been on the increasing trends.

CHAPTER – V

ROLE OF STATE BANK OF INDIA IN FINANCING PRIORITY SECTORS

CHAPTER – V

Role of State Bank of India In Financing Priority Sectors

The analysis attempted in the preceding chapter was for evaluating the deployment pattern of credit in favour of priority sectors. The policy has been subject to stipulating targets for priority sectors to augment the flow of credit requirements of beneficiaries. In the present chapter we attempt to take a close look at the achievements of State Bank of India in financing priority sectors and the extent to which bank has realised the stipulated lending targets. In India the business of banking and credit was practiced even in very early times and it had fulfilled the requirements of the people of those days. The remittance of money through Hundies, an indigenous credit instrument, was very popular and the history of early periodic shows that Hundies issued by bankers were honoured in far of distant parts of the country. These bankers, known as Shroffs, Sahukars, Shahus or Mahajans in different parts of the country were found at every centre of trade and commerce. But the modern type of banking however was developed by the agency houses of Calcutta and Bombay after the establishment of Rule by the East India Company in 18^{th} 19^{th} centuries.

The Presidency Banks:

After the expansion of foreign trade in 19^{th} century, the need for banks of the European type was felt and the Government of the East India Company took interest in having its own banks. The Government of

Bengal took the initiative and the first Presidency Bank, the Bank of Calcutta was established in 1806.

The Imperial Bank of India:

The Imperial Bank of India was established on 27 January, 1921 pursuant to the Imperial Bank of India Act. 1920. It took over three Presidency banks as going concerns with all their assets, liabilities and management. Thus, a sound and unified quasi-central banking institution come into existence. The bank could safely expect a good response and confidence of the public in the banking system, which had provided stability and extend banking service to the far-flung interior areas of the country. It come to be realised that the co-operation and the rapport established between the Presidency Banks and the Government could get further stimulus by this newly set-up Imperial Bank.

The Imperial Bank of India being the biggest commercial bank with enormous resources was expected to extend its branches throughout the country and conduct banking business by inspiring public confidence. Its remittance services were highly appreciated by the public. A Provincial Banking Enquiry Committee reported that these facilities of remittance afforded by the Imperial Bank had rendered distinct services to the economic life of the country[1]. The Bihar and Orissa Provincial Banking Enquiry Committee also referred to the

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[1] Mathur,O.P., "Public Sector Banks in Indian Economy, pub.by sterling Publishers, Delhi, 1978, p.13.

conditions in those States. According to the Committee, the Imperial Bank and the Joint Stock Banks did not play much part in financing the industries of the province[1].

Regarding its relations with other banks, the Imperial Bank of India had helped other banks by providing ample funds. The competition of the Imperial Bank with other banks was often exaggerated. The lowering of interest rates rather benefited the business community by reducing the semi–monopolistic position of the Joint Stock Bank. From organisational viewpoint, Imperial Bank was already a State Bank, as it was specially created by Indian Legislature, assisted, controlled and supervised by the Indian Government within certain limits. From the capital viewpoint it was a private shareholders bank like the Bank of England or the Bank of France. Although, it did not perform all the central banking functions.

Emergence of State Bank of India:

In February 1951, the Reserve Bank of India organised an informal conference of certain co-operators, economists and Registrars of cooperatives in order to formulate the future policy procedure and other steps to be taken by it in relation to agricultural credit. The conference found the formulation of such polices difficult due to shortage of actual information on the credit needs and borrowing practices in rural areas,

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[1] RBI, Bulletin, Mumbai, Jan.1973, p.73.

and therefore, it suggested for an All India Rural Credit Survey. In August 1951, accordingly, a Committee under the direction of Shri. A.D Gorwala as Chairman was appointed to (i) direct the planning, organisation and supervision of survey, (ii) interpret its results and (iii) make recommendations. The Committee recommended, inter alia, amalgamation of the Imperial Bank of India and ten other banks into a newly established bank, called the State Bank of India. The Government accepted the recommendations of the Committee and the decision to establish a State Bank of India was announced on 20 December 1954, in Parliament by the Finance Minister. While introducing the bill far nationalising the Imperial Bank of India the Minister for Revenue Expenditure observed, "It embodies the aspiration and desires of the members of this House and of the public"[1]. The State Bank will cater not only for agricultural credit requirements but also serve the interest of the rural industries and cottage industries. The purpose of this bill was not merely to take over the Imperial Bank of India, but its purpose was to create our rural life to vitalise and strengthen our peasantry and to rejuvenate the rural areas.

The Government introduced the State Bank of India Bill in the Lok Sabha on April 16, 1955 and it was passed by both the Houses of Parliament and received the President's assent on May 8, 1955. The Act

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[1] Mathur,O.P, op.cit., p.18

come into force on 1st July 1955 and from this date the whole of the undertaking of the Imperial Bank within the country was transferred to the State Bank of India. With the establishment of the Sate Bank of India, a new chapter in the history of Indian Banking was commenced. Opinions might differ on this bold experiment, but it can not be denied that this development comes at a very important stage of India's economic, social and political growth and all eyes were focused on it.

The State Bank of India is the biggest commercial bank, which stands in a class by itself. The SBI played a significant role in the economic development of the country since its inception by providing adequate credit assistance to the agriculture small, medium and large industries trade and commerce in the private sector as well as in the public sector by investing in the Government and in other securities. The State Bank has also played pivotal role in the planning process by mobilising deposits and directing flow of these deposits in productive investment channels

The Imperial Bank of India was nationalised 44 years ago so that it could play a promotional role in the context of planned economic development in the country. Since July 1969, the State Bank of India and its subsidiaries have changed completely and have come in a big way to help agriculture, small business units and other neglected sectors. The State Bank of India has clearly fulfilled the purpose for which it was originally started.

Objectives:

The State Bank of India is basically a commercial bank .It undertakes ordinary commercial banking business and provides credit on liberal basis to agriculture, co-operatives, small-scale industries and other priority sectors in the country's economy. The main objectives may be summarised as follows:

1. The first objective of nationalisation of the Imperial Bank of India was the extension of banking facilities on a large scale more particularly in rural and semi-urban areas and setting up a strong state owned commercial banking institution with an effective machinery composed of a large network of branches spread all over the country.
2. A statuary obligation has been imposed on the State Bank to open 400 new branches in unbaked areas during the first five years of its existence but the Government has given power to extend this period if necessary.
3. The activity of the SBI was expected to be in conformity with the broad economic policies persuaded by the Government. This would have an effective impact on the activities of other

commercial banks since it commands major portion of the deposits of the commercial banking system as a whole.

4. With a view *to promote development of rural credit, the* State Bank was required to advance loans on liberal terms to the cooperative banks, to provide financial accommodation to cooperative marketing and processing societies, to provide assistance to the ware housing scheme and to assist land mortgage banks by subscribing to and lending against their debentures.

5. Another important objective was that the State Bank of India would help the Reserve Bank in the implementation of its credit polices and to check any monetary disequilibirium that is likely to develop in the money market owing to the development activities. The Reserve Bank of India holding 55 per cent of the shares of the State Bank of India (SBI) and has the control over the large resources of the State Bank to make effective its credit policies and tighten its grip over the whole banking system. Besides, with the help of the State Bank, the Reserve Bank would be able to control and regulate the direction of the flow of credit.

6. It was to share some responsibility with Reserve Bank and to help other banks in the country in different ways.

Its role is also to act an instrument of development although principally, the State Governments are directly responsible for the implementation of this programme of cooperative development. The All India Rural Credit Survey Committee has also suggested to the Government not to interfere in the day-to-day working of the bank and the bank on its part not to lower the standard of sound banking[1].

The Committee has also stressed upon the training of State Bank personnel in regard to the aims and methods of cooperation and cooperative banking: and wherever suitable, such personnel is to positively associated with the Boards of Cooperative Credit Institutions so that the technical quality of cooperative banking can be assimilated into the higher standards which obtain in commercial banking[2].

Business:

The State Bank can transact the following business:

1. Act as an agent of the Reserve Bank of India at all places in India where it has a branch and where there is no branch of the banking department of the Reserve Bank for paying, receiving, collecting and remitting money, bullion and security on behalf of any Government in India and transacting any other business which the Reserve Bank may from time to time entrust to it.

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[1] Mathur,O.P, op.cit., p.19

[2] Shetty,M.C. "Preparation for Financing Small Industry, Economic and Political Weekly, Mumbai, , December. 13. 1969, p.1923.

2. The State Bank may advance money or sanction cash credits on security of goods or documents of little of goods, fully paid shares or debentures of companies, trust securities, negotiable instruments and other assets.
3. The selling and realisation of the proceeds of sale of any promissory notes, debentures, stock receipts, bonds, stock shares, securities or goods or documents of little which have been deposited with or pledge, hypothecated assigned or transferred to the State Bank of India as security for such advances, loans or credits or which are held by the State Bank or over which State Bank is entitled to any lien or charge in respect of any loan, advances or claim of the State Bank and which have not been redeemed in due time.
4. It may draw, accept, discount, buy and sell bills of exchange and other negotiable securities.
5. It may keep or maintain deposit or cash accounts with any banking institution.
6. It may issue demand drafts, telegraphic transfer, and other kinds of remittances made payable at its on offices, branches or agencies.
7. It may buy gold and silver whether coined or uncoined.

8. It may receive deposits and keeps cash accounts on such terms as may be agreed upon.
9. It may receive all kinds of bond, scripts and title deeds or valuable on deposits or for safe custody or otherwise on such terms as may agreed upon.
10. It may seal realise all property, whether movable or immovable, which may in any way come into the possession of the State Bank in satisfaction or part satisfaction of any of its claims. It has also power to acquire and hold and deal with any rights, title or interest in any property, movable or immovable, which may be the State Bank's security for any loans or advances or may be connected with any such security.
11. It acts as an agent of any co-operatives banks which is registered or deemed to be registered under the co-operative societies Act, 1912, or any other law for the time being enforce in any part of India relating to co-operative societies in the transaction of such business and on such terms as may be agreed upon.
12. It may act as an agent far the Central Government or any State Government or any corporation in implementing any schemes for financing the construction of dwelling houses, and in advancing or lending of money from out of funds placed at its disposal as such agent by the Government or corporation to any person under such

terms and security as approved by the concerned Government or corporation.

13. It may underwrite the issue of any stocks, shares, debentures or other securities.
14. It may transact pecuniary agency business on commission.
15. It may administer whether alone or jointly with other persons estates for any purpose, whether as executor, trustee or otherwise.
16. It may draw bills of exchange and grant letters of credit payable out of India.
17. It may borrow money for the purpose of the business of State Bank and give security for money so borrowed by pledging assets or otherwise.
18. It may with the approval of the Reserve Bank, the subscribing, buying and selling of shares of any banking institution and the forming or conducting of any such banking institution as a subsidiary of the State Bank.
19. It may in consultation with the Reserve Bank of India and subject to the directions of the Central Board subscribe, buy or sell shares or debenture of any financial institution as may be notified by the Central Government in this behalf.

20. It may do any other kind of business, which the Central Government in consultation with the Reserve Bank and on the recommendations of the Central Board, may authorise.
21. It may perform the functions entrusted to, or required of the State Bank by this Act or by any other law for the time being enforce.
22. It may generally do all such things, as may incidental or subsidiary to the transacting of various kinds of business including foreign exchange business.

Analysis of Priority Sectors Lending:

The pace of priority sectors lending of State Bank of India and scheduled commercial banks have been received impetus since the nationalisation of major commercial banks on July 1969. The trends in priority sectors in State Bank of India and commercial banks are analysed below: -

Trends between 1969 and 79:

The data presented in the Table 5.1 indicate that State Bank of India's share of priority sectors lending to total advances in India was 25.4 per cent whereas the same was 15 per cent in case of scheduled commercial bank in December 1969,which increased to 37.4 per cent and 32.5 per cent respectively in December 1979. The comparative position of lending of State Bank of India in priority sector was fairly good as compared to scheduled commercial bank. It is clear from the table 5.1 that the amount of lending to priority sectors was Rs 1450.29 crore and Rs. 1891.57 crore form 33.6 per cent and 37.4 per cent by the end of 1978 and 1979 in case of State Bank of India while corresponding figures were 30.7 per cent from 32.5 per cent in respect of scheduled commercial banks which shows that the State Bank not only achieved the target of raising these advances to the level of 33.3 per cent of its total advances before the stipulated date viz., the 31 March, 1979, but also improved the share further to 37.4 per cent by the end of December, 1979. But as far as commercial banks are concerned they failed to achieve the target of 33.33 per cent by March, 1979.

Table 5.1

Statement Showing The Total Priority Sectors Advances of SBI and Scheduled Commercial Banks (1969-2000)

(Rs in Crorer)

Year ended on		State Bank of India: Total Advances in India	State Bank of India: Amount out Standing	State Bank of India: As % to Total	Scheduled Commercial Banks: Total Advances in India	Scheduled Commercial Banks: Amount out Standing	Scheduled Commercial Banks: As % to Total
June	1969	799 50	203 00	25 4	3599 00	505 00	15 0
Dec	1970	927 60	298 00	32 1	4452 00	1003 10	22 5
//	1971	1096 06	292 77	25 8	4876 86	1103 00	22 6
/	1972	1226 89	330 59	27 0	5368 52	1331 00	24 8
//	1973	1565 37	406 49	26 0	6808 72	17580 00	25 8
//	1974	1790 02	504 96	28 2	7848 39	2121 00	27 0
//	1975	2333 06	612 34	26 2	9870 65	2609 00	26 4
//	1976	3001 55	789 19	26 2	12800 26	3409 00	26 6
//	1977	3295 45	1013 51	30 8	14391 48	4137 00	28 7
//	1978	4316 09	1450 29	33 6	17590 94	5405 00	30 7
//	1979	5055 98	1891 57	37 4	20741 76	6744 07	32 5
//	1980	6318 71	2473 05	39 1	24359 39	8327 00	34 2
//	1981	7005 23	2965 98	39 0	29552 50	10315 22	34 9
//	1982	8803 35	3276 29	37 2	34159 63	12329 89	36 1
/	1983	9732 13	3995 97	41 1	39394 54	14882 00	37 8
//	1984	11493 91	4770 36	41 5	47540 62	18330 00	38 6
//	1985	12821 71	9522 48	43 1	54281 24	21631 38	39 9
//	1986	14450 22	6315 20	43 7	62535 71	25206 00	40 3
//	1987	15949 07	7222 00	45 3	69209 62	29248 00	42 3
Mar	1989	20967 48	9206 00	43 9	89080 00	38086 00	42 7
/	1990	24270 00	10544 00	43 0	105450 00	41497 00	40 7
/	1991	30336 68	11272 13	37 0	121865 00	44572 00	37 7
/	1992	30903 69	11661 50	38 0	131520 00	47318 00	37 1
/	1993	38298 90	12514 51	33 0	154838 00	51739 00	34 4
/	1994	37186 24	1359 37	36 0	166844 00	59097 00	36 5
//	1995	41619 00	15033 85	36 1	211560 00	69209 00	33 7
/	1996	56234 00	17018 46	30 3	254015 00	80831 00	32 8
/	1997	51693 00	19354 01	36 0	278401 00	93807 00	34 8
	1998	60128 00	21642 06	37 2	324079 00	108905 00	34 6
	1999	65456 25	23795 00	36 3	349065 00	126309 01	35 4
	2000	70395 00	25760 00	36 5	400818 00	131827 00	32 9
Total		640068 01	239733 93	37 5	3056684 08	1063590 67	35 6

Sources - i) RBI Various statistical Tables relating to Banks in India
ii) RBI Various Currency an Finance Reports
iii) SBI Various Annual Reports

Trends between 1979 and 89:

In accordance with the national objective, the banks had been directed by the Government to extend credit to priority sectors to a level of 40 per cent by the end of March, 1985. Table 5.1 further shows that priority sectors advances rose from Rs. 1891.57 crores in case of State Bank of India and Rs. 6744.07 crores in respect of scheduled commercial banks (Table 5.1) in December, 1979 to Rs. 9206.00 crores and Rs. 38086.00 crores respectively in March 1989 which was about 4.8 times rise in respect of State Bank and 5 times increased in respect of scheduled commercial banks. Further, the SBI achieved the target of 40 per cent of its total advances before the March, 1985 but scheduled commercial banks could not achieve it till the stipulated date. The share in total advances in the country was 43.1 per cent in case SBI and 39.8 per cent in respect of scheduled commercial banks in March 1985. But, thereafter, both segments of banks have paid attention to financing the priority sectors and accordingly the share of advances increased in both the facets of banks. It is pertinent to point out here that the SBI and scheduled commercial banks have attained a level of 43.9 per cent and 42.7 per cent respectively in March 1989.

Trends between 1989 and 2000:

Table 5.1 also demonstrates the data about priority sectors lending by both types of banks. It becomes evident from the Table 5.1 that priority sectors advances of State Bank and scheduled commercial banks had been on the rise and between 1989 and 1999.SBI lending has gone up from Rs. 9206.0 crores in 1989 to Rs.25760.00 in crores in March 2000 while advances of commercial banks increased from Rs. 38086.00 crores to 131827.00 crores. The annual rate of growth of priority sectors advances of State Bank of India and commercial banks were more than 15 per cent and 23 per cent or 1.58 times and 2.3 times respectively. In other words the share of State Bank's advances was lower than scheduled commerce banks during this period.

Analysis of Agricultural Lending:

Agriculture is an important sector of Indian economy. But its success and failure depends, to a large extent, on climate factors. Banks have been directed to increase the share of direct finance for agriculture and allied activities in their total credit in India to 15 per cent by the end of March, 1985 and 16 per cent by the end of March, 1987. Further, it was directed to increase 17 per cent and 18 per cent by the end of March 1989 and March 1990 respectively.

The State Bank grants direct advances to farmers for all agricultural operations. The objective of the bank is to increase agricultural production and not merely to substitute credit channel. The factors governing the eligibility of proposal for agricultural lending are primarily the progressiveness of the farmers and the economic viability of the schemes.

In 1969, the State Bank of India introduced the Small Farmers Schemes (SFS) and the Farm Graduate Scheme (FGS). The former is designed to help small farmers whose business is viable or can be rendered so if necessary credit is made available to them. Loans are preferably granted on the basis of group borrowing i.e. farmers desirous of financial help are encouraged to form themselves into groups and, while loans are granted to individual they are secured by the guarantee of all the farmers in the group. The bank has adopted the village centres selected for the operation of the scheme in order to maximise its impact. In the adopted villages all potentially viable farmers irrespective of their land holdings are assisted by the bank for all their requirement of finance for agricultural development.

The Farm Gradual Scheme seeks to extend credit to technically qualified personnel particularly graduates in agriculture dairy science and agricultural engineering, who have worthwhile farm development projects but are unable to undertake them due to lack, of resources. Loans are ordinarily granted to land-holders either as owner or as tenants or as lease holders and in exceptional cases, for the purchases of land.

The strategy for financing the agricultural sector was reviewed during 1971, with a view to consolidating the bank's position and ensuring healthy growth of the business in future. The State Bank decided to move away form scatter loaning and lay greater emphasis on area approach. An important feature of the strategy was to select intensive centers. The basic objective was to select compact areas, where the economy in its various facets could be improved by the bank's support. Preference was given to areas which were backward or where special schemes of the Government were taken up Agricultural Development Branch (ADB) were set up at such intensive centers with the necessary support of technical and other field staff. The centers were selected in consultation with the State Governments.

A note worthy feature in the sphere of agricultural financing by the bank is the impressive performance of the Agricultural Development Branch (ADBs). Again in 1975, a Regional Rural Banks Department has been set up at central office of the bank to make effective co ordination with the various agencies concerned and to provide the necessary guidance and assistance to the Regional Rural Banks (RRBs).

Trends in the 70s:

Table 5.2 shows that during the year between December 1969 and December 1979, the agriculture advances of SBI increased by 9 times i.e. from Rs. 92 crore in 1969 to Rs. 922.2 crores in 1979 and in case of scheduled commercial banks they increased by more than 14 times i.e. from Rs. 188.4 crore in 1969 to Rs. 2869.51 crore in 1979. This reveals that agricultural advances was less by 5 times in the case of State Bank than scheduled commercial banks. But if we compare the agricultural advances to total advances of both banks in India, we find that its share was 13.1 per cent and 11.1 per cent in the State Bank of India and scheduled banks respectively. The number of farmers accounts were 0.8 lakhs in State Bank and 2.7 lakhs in case of scheduled commercial banks in 1969 which had increased to 30.1 lakhs and 87 lakh respectively in 1979, showing an increase of more than 36 times in case of State Bank and 31 times in respect of scheduled commercial banks. The direct agriculture advances of the State Bank increased from Rs. 29 crores in 1969 to Rs. 770 crores in 1979 and the number of farmers accounts have gone up to 27.6 lakhs which shows that during the period under review the direct agriculture advances to farmers increased by more than 25 times and the number of farmers' accounts went up to 32 times. The share of direct agriculture advances of scheduled commercial banks has increased by 32 times to Rs. 1825.00 crores in 1979 from

Table 5.2
Statement Showing Agriculture Advance of SBI and Scheduled Commercial Banks (1969-2000)

(Rs. In crore)
(Account in lakh)

Year	State Bank of India: Total Advances in India	Amount Outstanding	Agriculture Fiancée: Direct Finance		Indirect Finance		All Scheduled Commercial Banks: Total Advances in India	Amount Outstanding	Agriculture Finance: Direct Finance		Indirect Finance	
			No. of A/c	Amount	No. of A/c	Amount			No. of A/c	Amount	No. of A/c	Amount
June 1969	799.50	92.00	0.76	29.00	0.04	63.00	3599.00	188.40	2.57	54.00	0.11	134.00
Dec. 1975	2333.06	240.62	7.30	170.84	0.90	69.78	9870.65	1024.19	30.97	725.00	3.52	299.00
Dec.1979	5055.98	922.20	27.60	770.00	2.50	152.20	20741.76	2869.51	65.50	1825.00	9.98	664.00
Dec.1985	12821.71	2504.24	48.17	2154.08	2.54	350.19	54281.24	9849.59	179.09	7549.87	3.67	1299.72
Dec.1986	14480.22	2803.93	50.73	2476.12	2.87	327.81	62535.71	10584.87	169.71	9130.21	9.62	1454.66
Dec.1987	15949.07	3113.00	54.30	2759.19	2.80	353.81	69209.62	12138.58	173.17	10658.28	7.46	1480.30
Mar.1989	20967.48	3875.00	57.55	3522.54	3.35	352.46	89080.00	13950.00	205.06	12310.86	7.14	1639.13
Mar.1990	24270.00	4404.00	59.16	4045.76	3.44	358.24	105450.00	16928.11	215.20	15499.51	7.33	1428.60
Mar.1995	41619.24	6017.84	53.24	5776.23	4.47	541.60	211560.00	24948.01	244.38	21420.51	3.76	3527.50
Mar.2000	70395.00	9773.24	49.50	8795.92	4.70	977.32	400818.00	44381.00	202.10	37671.88	2.70	6710.12

Sources: RBI: Various Statistical Table Relating Banks in India.
RBI: Various Currency and Finance Reports.
SBI: Various Annual Reports.

Rs.54 crores in June 1969. Nearly 72 per cent of the banks agricultural borrowers had land holding of 5 acres and less at the end of December 1979. Further against the Governments stipulation of 50 per cent of direct agricultural advances (other than advances for allied agricultural activities) to be given by the banks to small and marginal farmers by the end of Sixth Plan, their share in the banks direct advances had reached to 43.1per cent at the end of December 1979.

Indirect agricultural advances of the State Bank of India rose from Rs.63 crores in 1969 to Rs. 152.2 crores in 1979 showing an increase of Rs.89.2 crores i.e. 1.4 times and which shows that its share in total advances in India was 3 per cent in 1979 where as in case of scheduled commercial banks they increased from Rs. 134 crores in 1969 to Rs.664.00 crores in 1979 showing a rise of 4 times, and its share in total advances in India was 3.2 per cent. Thus the share of indirect financing was more or less equal in both segments of banks. All these advances made through the Primary Agriculture Credit Societies (PACS) and Farmer's Service Societies (FSS). Such an accelerated pace of progress has been possible only by a systemic area approach followed by the banks for the intensive coverage of agricultural and allied agricultural activities and village adoption and opening of specialised branch known as Agricultural Development Branch (ADBs). Nearly 6600 rural and semi-urban branches of SBI including ADBs have covered over 60 thousand villages throughout the country for intensive financing of agricultural and allied activities. The ADBs have earned appreciation for their increasing participation in agricultural assistance

Trends in the 80s:

Table 5.2 also shows that during the period between December, 1979 and March, 1989, the total advances of State Bank of India to agriculture increased from Rs. 922.2 crores, spread over 30.1 lakh accounts at the end of 1979 to Rs.3875.00 crores spread over 60.9 lakhs accounts at the end March, 1989 showing an increase of 3.2 times whereas in regard scheduled commercial banks, the same increased from Rs. 2869.51 crores, spread over 75 lakhs accounts to Rs. 13950.00 crores during the same period showing an increase of 3.9 times. But its share in total advances in India stood at 18.8 per cent in respect of State Bank and 17.6 per cent in regard to scheduled commercial banks which means a superiority of State Bank of India over scheduled commercial banks. Direct finance has increased to Rs. 10658.28 crores in 1987 from Rs. 1825.00 in 1979, which was 4.8 times more in 1987 than 1979. The share of direct agriculture advances to total advances in India was 16.8 per cent in December, 1985 17.1 per cent in December 1986, 17.3 per cent in December 1987, 16.8 per cent in March 1989, in case of State Bank. Whereas the same was 14 per cent 14.6 per cent and 15.4 per cent in 1985 1986 and 1987 respectively in regard to scheduled commercial banks. This all means that the State Bank achieved the target of direct agriculture advances fixed by the Reserve Bank of India (RBI) for three years i.e. 1985-87 but scheduled commercial banks had failed to achieve their target. But in March 1989 and neither the State Bank nor scheduled commercial banks had achieved the target of 17 per cent. Further the share of direct agricultural advances in total advances in India went down in respect of State Bank .The main reason behind this trend may be due to the slackness of Reserve Bank of India and ardent desire of banks' authority to advances in more profitable areas to earn more profit.

Indirect agricultural advances to Primary Agriculture Credit Society/ Large Sized Advasi Multipurpose Society and other corporates and agencies involved in ensuring supply of inputs, power etc. to farmers stood at Rs. 357 crores in regard to State Bank in March 1989 as compared to 338.83 in December 1986, Rs. 353 crores in 1987 and Rs. 357 crores in March 1989. Whereas the same was Rs. 1424.52 crores in 1986 crores in 1986 and 1526.9 crores in 1987, in regard to scheduled commercial.

Trends in the 90s:

The agricultural advances of State Bank of India have risen from Rs. 3875.00 crores in March, 1989 to over Rs. 9773 .24 crores in March 2000 whereas the same was risen from Rs. 13950.00 to Rs. 44381.00

crores in regard to scheduled commercial banks (Table 5.2) The advances had constantly been increasing in both the types of banks but they could not achieved the stipulated target of 18 per cent in 1989 and 1990. The percentage in total advances in case of State Bank was better than the scheduled commercial banks The number of farmers accounts were 51.23 lakhs in respect of State Bank of India and 197.88 lakhs in regard to scheduled commercial banks in 1999 which were 60.9 lakhs and 212.14 lakhs in 1989 respectively. showing a decrease of 15.8 per cent in respect State Bank and 6.4 per cent in case of scheduled commercial banks.

Small Scale Industries Finance:

The State Bank of India soon after its establishment paid attention to provide credit to small-scale industries. It adopted an experimental approach and introduced a pilot scheme of co-ordinate finance in March 1956. It worked with the collaboration of State Financial Corporations, Cooperative Banks, Central and State Government had put the scheme into operation by the end of 1956 at nine selected centers, three each in three circles (Bombay, Calcutta and Madras) of the State Bank of India. This scheme of providing working capital is popularly known as 'Liberalised Scheme of Financing Small Scale Units'. In January, 1959 it was extended to all branches of State Bank of India and in 1960 to the State Bank's eight subsidiary banks.

Under the scheme some branches were to serve as intensive centres and at each such centre there was a working group. In each circle of the bank a local Coordination Committee coordinated its entire work. At the central office level a central Coordination Committee was to supervise the whole work. The bank's field staff was to establish contact with the unit, acquire first hand knowledge about its working and difficulties, if any, and render necessary help in completing the loan application forms, which were also considerably simplified. The study of the credit extended by the State Bank of India to small scale industries are analysed below:

Trends in the 50s:

During this period, the State Bank of India was the only public sector commercial bank. In 1956 when it began financing small-scale industries, only 25 units with sanctioned limits of Rs.10 lakhs were financed. Gradually, their number increased and by the end of 1960, the State Bank had given advances to 2451 units, whose sanctioned limits and outstanding amounts were Rs. 7.8 crores and Rs. 3.7 crores respectively. Such advances constituted 1.6 per cent of the total advances in 1960[1].

For financing small-scale industries, the bank decided to adopt a selective and coordinated approach in the beginning so that the

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[1]. Mathur O.P, op.cit., p.153

experience is gained. Those branches, where this work was concentrated, were designated as 'Intensive centers. The number of such Intensive Centre was only 35 in 1961. On account of the coordinated efforts at the Intensive Centers, assistance to small-scale industries was greater in comparison to other centers. Thus between 1956 and 1960 the number units assisted by State Bank of India increased by nearly 100 times from 25 to 2451 units and the outstanding amount by more than 36 times from Rs. 10 lakh to Rs. 3.7 crores[1].

Trends in the 60s:

During the said period the State Bank of India and its subsidiaries also were the only public sector commercial banks. Between 1960 and 1968 the number of unit assisted by the bank increased by about 5 times from 2451 to 14393 and outstanding amount by more than 14 times i.e. from Rs. 3.7 crores to Rs. 57 crores[2].

During the period 1968-69 the commercial bank was substantially enlarged. Besides the SBI, the 14 nationalised banks had also adopted the policy of greater emphasis on financing small-scale industries.

It is important fact that in 1969 and in subsequent years a higher percentage of total advances were given to small-scale industrial units as compared to 1968 and its preceding years. It becomes more alarming

[1] Mathur O P., op. cit., p.153
[2] Ibid.

if 1968 ad 1969 figures are compared. The number of assisted units increased from 14393 in 1968 to 22149 in 1969, the sanctioned limits rose from Rs. 103.2 crores to Rs. 187.3 crores and the outstanding amount from Rs. 57 crores to 104 crores. The percentage of outstanding amount to total advances went up from 7.5 per cent to 12.3 per cent in December, 1969[1].

Trends in the 70s:

Table 5.3 shows that during the period between 1969 and 1979, the number small scale industrial units assisted by the State Bank of India increased from 0.22 lakhs in December 1969 to 2.45 lakhs in December 1979 and the outstanding amount to Rs. 734.07 crores in 1979 from Rs. 104 crores in 1969. Thus during the above period, the number of small scale industrial units and the outstanding amount increased by more than 10 times and 6 times respectively in State Bank of India. But the number of small scale units assisted by scheduled commercial banks in 1969 increased from 0.82 lakhs unit to 7.9 lakhs unit and outstanding amount from Rs. 285.88 crores to 2661.86 crores in December, 1979 (Table5.3) showing a comparatively better performance in absolute terms than that of State Bank of India during the period 1969 and 1979. To analyse the same in relative terms, it is found that the share of advances to small-scale industrial units to total advances in India is

[1] Mathur O.P, op.cit., p.155

Table 5 3

Statement Showing the Advances to Small Scale Industries of SBI and Scheduled Commercial Banks (1969-2000)

(Rs in crores)

		State Bank of India				Scheduled Commercial Bank			
	Year ended on	Total Advances in India	Advances to small scale industries: Amount Outstanding	As % to Total	No of in Lakh	Total Advances in India	Advances to small scale industries: Amount out Standing	As % to Total	No of Accounts in Lakhs
June	1969	799 50	104 00	13 0	0 22	3599 00	285 88	8 5	0 82
Dec	1970	927 60	152 00	16 4	0 34	4452 00	469 10	10 6	1 20
//	1971	1096 06	171 45	15 6	0 50	4876 86	546 75	11 2	1 40
//	1972	1226 89	197 03	16 1	0 60	5368 52	650 18	12 1	2 00
//	1973	1565 37	249 55	15 9	0 80	6808 72	864 81	12 7	2 20
//	1974	1790 02	286 58	16 0	0 90	7848 39	1026 40	13 1	2 70
//	1975	2333 06	319 68	13 7	1 10	9870 65	1159 84	11 8	4 00
//	1976	3001 55	375 66	12 5	1 50	12800 26	1440 67	11 3	4 80
//	1977	3295 45	462 16	14 0	1 90	14391 48	1728 00	12 0	5 60
//	1978	4316 09	591 35	13 7	1 90	17590 94	2183 59	12 4	6 80
//	1979	5055 98	734 07	14 5	2 45	20741 76	2661 86	12 8	7 90
//	1980	6318 71	1058 78	14 7	5 90	24359 39	3171 33	13 0	9 60
//	1981	7005 23	1079 87	14 2	3 46	29552 50	4005 05	13 6	10 5
//	1982	8803 35	1195 80	13 6	3 65	34159 63	4519 68	13 2	12 4
//	1983	9732 13	1455 52	15 0	4 00	39394 54	5452 30	13 8	14 5
//	1984	11493 91	1746 34	15 2	4 80	47540 62	6618 20	13 9	16 4
//	1985	12821 71	2070 09	16 1	5 30	54281 24	7907 66	14 6	18 6
//	1986	14450 22	2431 73	16 8	5 90	62535 71	9208 05	14 7	18 7
//	1987	15949 07	2898 00	18 2	7 70	69209 62	10862 88	15 7	21 0
March	1989	20967 48	3927 00	18 3	10 30	89080 00	13135 00	16 6	24 35
//	1990	24270 00	4412 73	18 2	10 49	105450 00	1596 36	15 15	27 91
//	1991	30336 68	5045 41	16 6	10 54	121865 00	17937 83	14 72	29 03
//	1992	30903 69	5069 46	16 4	10 37	131520 00	18938 97	14 40	29 35
//	1993	38298 90	5464 26	14 2	09 84	154838 00	20975 08	13 5	29 30
//	1994	37186 24	5861 92	15 8	10 07	166844 00	23978 28	14 54	29 47
//	1995	41619 00	6777 97	16 3	10 10	211560 00	29174 52	13 8	29 63
//	1996	56234 00	7789 85	13 9	10 34	254015 00	34245 58	13 48	29 75
//	1997	51693 00	8638 42	16 7	12 49	278401 00	38195 81	13 7	31 48
//	1998	60128 00	9931 62	16 5	9 29	324079 00	45770 64	14 2	25 66
//	1999	65456 25	10982 34	16 8	10 12	349065 00	51679 28	14 1	27 25
//	2000	70395 00	11920 25	16 9	11 20	400818.00	52814.00	13.1	29.36
Total									
(1969-2000)		640068 01	103300 89	16 04	166 87	3056684 08	426574 78	14 07	503 66
(1969-79)		25415 54	3643 53	14 34	12 21	108115 83	13020 28	12 04	39 42
(1979-89)		113187 66	18497 20	16 34	53 46	470855 01	67542 01	14 34	153 95
(1989-2000)		527488 24	85821 23	16 16	113 95	2587535 00	362809 35	14 07	313 18

Sources i) RBI Various Statistical Tables Relating to Banks in India
ii) RBI Various Currency and Finance Reports
iii) SBI Various Annual Reports

higher in regard to the State Bank in comparision to scheduled commercial banks. The share of advances to small scale industrial units in total advances ranging between the highest 16.4 per cant in 1970 in case of State Bank and 13.1 per cent in 1974 in regard to scheduled commercial banks, and the lowest 12.5 per cent in respect of State Bank and 8.5 per cent in 1969 in case of scheduled commercial banks. The aggregate percentage of advances to small scale industrial units to total advances was 14.34 in respect of State Bank of India and 12.04 per cent in case of scheduled commercial banks showing a higher percentage in case of State Bank as compared to scheduled commercial banks. But the number of units assisted by State Bank were 12.21 lakhs and 39.42 lakhs were in regard to scheduled commercial banks during the period under review. Further, it may be said that although the aggregate percentage of advances to small-scale industrial units were higher in case of State Bank, the number of units assisted by the State Bank were much lower than scheduled commercial banks.

Trends in the 80s:

Table 5.3 also presents the data about the advances to small scale industrial during the period between 1979 and 1989. During the period under reference the outstanding amount given to small industries by State Bank rose to 3927.00 crores or by about by about 4.35 times in March, 1989 and the same rose to Rs. 13135.00 crores by about 3.93

times in respect of scheduled commercial banks which means a higher percentage increase in case of State Bank as compared to scheduled commercial banks in absolute terms. The share of advances to small scale industrial units in total advances were continuously increased in both types of banks but their share was 16.34 per cent in case of State Banks and 14.10 per cent in regard to scheduled commercial banks, showing comparatively a higher percentage in case of State Bank as against scheduled commercial banks.

Trends in the 90s:

Table 5.3 further reveals the trends in assistance to small-scale industries by the State Bank of India and scheduled commercial banks. During the period under review the outstanding amount by State Bank rose to Rs. 11920.25 crore or by about 2 times in March 2000 and the same rose to Rs. 52814.00 crores by more than 2 times in regard to scheduled commercial banks which means a higher percentage of increase in case of scheduled commercial banks as compared to State Bank in absolute terms. The advances to small scale industrial units was continuously on the increase in both types of banks but the share of State Bank showing comparatively higher percentage than scheduled commercial banks. While summing up the performance of both SBI and commercial banks of we may safely conclude that the State Banks advances to small-scale industries were higher than the advances made by scheduled commercial banks.

Financing of Other Priority Sectors:

Besides agriculture and small scale industries, there are other categories of borrowers in the priority sectors requiring adequate financial support from banks such as road and water transport operators, retail traders, small business, professional and self employed persons, students, State sponsored organisations assisting weaker sections in the society and persons requiring housing accommodation and consumption loans.

Table 5.4 indicates trends in the advances to other priority sectors by the State Bank of India and scheduled commercial banks. During a span of more than 30 years between 1969 and 2000, the advances to other priority sectors increased from Rs. 7.00 crores in case of State Bank and Rs. 30.72 crores and in regard to scheduled commercial banks to Rs. to 5090.20 crores and Rs. 30632.00 crores respectively in March 2000, which shows an increase of 726 times in case of State Bank and 996 times in regard to scheduled commercial banks. Table 5.4 also reveals the rising trends of advances of both classes of bank from 1969 to 2000.

Table 5 4

Statement Showing the Advances to Other Priority Sectors of SBI and Scheduled Commercial Banks (1969-2000)

(Rs in crores)

		State Bank of India			Scheduled Commercial Bank		
	Year	Total Advances in India	Amount Outstanding	As % to Total	Total Advances in India	Amount out Standing	As % to Total
June	1969	799 50	7 00	0 9	3599 00	30 72	0 9
Dec	1970	927 60	24 00	2 6	4452 00	133 90	3 0
//	1971	1096 06	22 55	2 1	4876 86	160 78	3 3
//	1972	1226 89	22 02	1 8	5368 52	195 34	3 6
//	1973	1565 37	31 56	2 0	6808 72	275 92	4 1
//	1974	1790 02	41 39	2 3	7848 39	313 52	4 0
//	1975	2333 06	52 04	2 2	9870 65	424 97	4 3
//	1976	3001 55	83 54	2 8	12800.26	633 39	4 9
//	1977	3295 45	121 95	3 7	14391 48	759 39	5 3
//	1978	4316 09	164 11	3 8	17590 94	985 41	5 6
//	1979	5055 98	235 30	4 7	20741 76	1212 70	5 8
//	1980	6318 71	303 54	4 8	24359 39	1582 92	6 5
//	1981	7005 23	445 99	5 9	29552 50	1652 73	5 6
//	1982	8803 35	513 09	5 8	34159 63	2522 62	7 4
//	1983	9732 13	647 83	6 7	39394 54	3197 05	8 1
//	1984	11493 91	827 92	7 2	47540 62	4090 45	8 6
//	1985	12821 71	948 13	7 4	54281.24	4691 27	8 6
//	1986	14450 22	1097 54	7 5	62535 71	5413 08	8 7
//	1987	15949 07	1211 00	7 6	69209 62	6246 54	9 0
March	1989	20967 48	1504 00	7 2	89080 00	7134 00	9 0
//	1990	24270 00	1723 00	7 1	105450 00	8248 00	8 6
//	1991	30336 68	1877 74	6 2	121865 00	8625 72	8 0
//	1992	30903 69	1811 55	5 8	131520 00	8839 60	7 8
//	1993	38298 90	1814 91	4 7	154838 00	9236 76	7 0
//	1994	37186 24	2212 28	6 0	166844 00	10497 50	7 6
//	1995	41619 00	2238 04	5 7	211560 00	11807 74	7 1
//	1996	56234 00	2605 50	4 6	254015 00	13700 96	7 0
//	1997	51693 00	3369 70	6 5	278401 00	16844 79	8 5
//	1998	60128 00	3890 48	6 4	324079 00	18929 51	8 0
//	1999	65542 00	4682 95	7 1	349065 00	26020 84	9 0
//	2000	70395	5090 20	7 0	400818 00	30632'00	8 6

Sources i) RBI Various Statistical Tables Relating to Banks in India
ii) RBI Various Currency and Finance Reports
iii) SBI Various Annual Reports

Note Data of scheduled commercial banks to priority sectors from 1999-2000 relate to public sector banks only

Differential Rates of Interest Schemes (DRI):

The Government of India announced a special scheme on March 25, 1972, known as the Differential Rate of Interest (DRI) Scheme for the persons in backward areas who are prepared to work hard and have no security to offer to the Bank. The objective of the Scheme is to raise the economic level of the borrowers by increasing their productive capacity with the help of banks so that with in a reasonable period, they would become viable.

The loans granted under this scheme are covered by the credit guarantee (small - loans) scheme but the guarantee fee is not recovered from the borrowers. Though, the scheme of Differential Rate of Interest (DRI) was meant for public sectors banks, the private sector banks have also adopted the scheme. The small credit is also made available to professional and self-employed persons, small business entrepreneur, small farmers and agriculturist. Loans for the poor and deserving students going for higher education play an important role in the development of human resources.

Multi-service agency is another scheme through which the banks finance the small borrowers. Special cells are created to provide the assistance and guidance to small borrowers in formulating viable projects. These cells try to assist and guide the small borrower, not only about finance but about other matters also such as procurement of raw materials and processing and marketing facilities etc. The bank may link their operations with those of other recognised bodies both Governmental and Non-Governmental which function in that area.

The target for the lending under Differential Rate of Interest (DRI) schemes is at least 1 per cent of total credit. Two thirds of the total Differential Rate of Interest (DRI) credit is to be routed through rural and semi-urban branches and the share of advances to SC/ ST in total DRI credit is minimum 40 per cent.

Advances Under Differential Rate of Interest (DRI) by State Bank of India:

Under the Differential Rate of Interest Scheme, the State Bank has been providing financial assistance at a concessional rate of interest to persons belonging to the weaker sections of the society engaged in productive activities.

Trends between 1973 and 1979:

The State Bank's total advances under the DRI scheme increased to Rs 47.00 crores or more than 14 times from Rs. 3 crores at the end of 1973 to Rs. 5.00 crores at the end of 1979 and the number of accounts by 7.7 lakhs from 0.7 lakhs to 8.4 lakhs. At the end of 1973 these advances constituted 1.2 per cent of the Bank's total advances in India at the end of previous years as against the stipulated target of 1 per cent in this respect. This average amount per account stood at Rs. 677 as at the end of 1979, 68 per cent of these advances were provided at the State Bank's rural and semi-urban branches as against the stipulated target of 66.7 per cent. The funds lent under the scheme to SC/ST amounted to Rs.19.8 crores covering 3.4 lakhs accounts and accounted for about 39.6 per cent of total D R I advances[1]. Thus, the SBI achieved the stipulated target at the end of 1979.

Trends between 1979 and 1990:

During the period of 1979-1990, advances under DRI scheme of the SBI increased by Rs. 105.8 crores or 211 per cent i.e. from Rs. 50 crores at the end of December, 1979 to Rs. 155.8 crores at the end of March, 1990 and the number of accounts by 2 lakhs from 8.4 lakhs to 10.4 lakhs. These advances constituted 0.65 per cent of the State Bank's total advances at the end of the previous year, thus not meeting the stipulated norm. About 52 per cent of the State Bank's DRI advances were made to member of SC/ST, exceeding the stipulated target of 40 per cent laid down by the Government. Further, 70 per cent of these advances were made through rural and semi-urban branches as against the stipulation of 66.7 per cent[2].

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[1] Statistical Table Relating to banks in India (1972-90)
[2] Statistical Table Relating to Banks in India (1990-2000).

Trends between 1990 and 2000:

The State Bank's advances under Differential Rate of Interest (DRI) scheme decreased from Rs. 184 crores in September 1990 to Rs. 70.40 crores at the end of March, 2000 and the number of accounts from 8.85 lakhs to 3.25 lakhs. These advances constituted 0.12 per cent of the State Bank total advances at the end of previous year, thus not meeting the stipulated norm. More than 45 per cent of the State Banks Differential Rate of Interest (DRI) advances were made to member of SC/ST, exceeding the stipulated target of 40 per cent laid down by the Government[1].

Weaker Sections:

The 'weaker section' in the priority sector would mean the under-privileged sections of the society. Their weakness may be either financial or social. These socially weaker sections of society are also a class, financially weak and besides, suffer from a lack of bargaining power and articulation in getting their grievances met. Weaker sections comprise the beneficiaries of the following categories[2].

(1) Small and marginal farmers with land holding of 5 crores or less, landless labourers, tenant farmers and share croppers;

(2) Artisans or small industrial activity (viz. manufacturing, processing, preservation and servicing) in villages and small

[1]. Statistical Table Relating to Banks in India (1990-2000)

[2] Tannan M L., op.cit., p.612.

towns with a population not exceeding 50,000 involving utilisation of local available natural resources and/or human skills.

(3) Beneficiaries of IRDP;

(4) Scheduled Castes and Scheduled Tribes;

(5) Beneficiaries of DRI scheme;

(6) Beneficiaries of SEPUP.

The SBI has also been vigorously participating in the credit linked programmes initiated by Government of India for the alleviation of poverty and assistance to the educated unemployed to participate in gainful self-employment activities.

1. **Integrated Rural Development Programme (IRDP)**

Under the IRDP emphasis has been laid on the welfare of the SC/ST. In this context, banks were advised in April, 1981 to ensure that their credit planning takes into account the needs of these communities and that special bankable schemes suited to them were drawn up. Banks had also to take the following additional measures for ensuring a larger flow of credit to these communities:

(a) Loan proposals of SC/ST should be considered with utmost sympathy and understanding and disposed of expeditiously.

(b) While 'adopting' villages for intensive lending, villages with sizeable population of SC/ST may be specially chosen or, in the alternative, bank may consider adopting specific localities (basties) in the concerned villages which have a concentration of these communities;

(c) Special efforts to evolve suitable bankable schemes for weaker sections, including members of these communities should be made.

(d) A periodical review of the credit extended to these communities, on the basis of returns and other data received from branches, should be undertaken. In August, 1983, the Reserve Bank had given further advise to the commercial banks to follow:

(i) A special cell should be set up at the Head Office for monitoring the flow of credit to SC/ST beneficiaries. The cell should collect the relevant information/data from the branches, consolidate them and submit the requisite returns to the Reserve Bank and the Government.

(ii) The Board of Directors of bank should review, on a quarterly basis the measures taken to enhance the flow of credit to SC/ST borrowers.

(iii) The Board should also consider the progress made in lending to these communities directly or through the state level SC/ST corporations for various purposes based, among others. On field visits of senior officers from Head Offices / Controlling Offices. In January, 1984, all commercial banks were advised that if the applications in respect of SC/ST were to be rejected (Under IRDP as also other programmes), it should not be done at the branch level but at the next higher level.

A cell had been set-up in the rural planning and credit department of the Reserve Bank for monitoring the credit flow exclusively to SC/ST.

Assistance Under IRDP by State Bank of India (SBI):

The State Bank has been actively associating itself with the efforts to alleviate rural poverty under the IRDP. During 1980-90 the Bank disbursed loans aggregating Rs. 1052.6 crores to 39.21 Lakhs beneficiaries under IRDP and during the year 1990-99 the Bank disbursed loans aggregating Rs. 1156.5 crores to 35.42 lakhs beneficiaries under IRDP for pursuing various income generating activities. Since the inception of the programme in 1980, the cumulative disbursements of Bank up to March 1999 amounted to Rs. 2209.1 crores covering 69.21 lakhs beneficiaries[1].

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[1] R B I and Ministry of Rural Development Government of India and SBI: various Annual Reports.

The success of the programme hinges on the attitude of the implementing agencies. The State Bank has been given due importance to this aspect in its training programmes. Seminars and workshops were conducted during the period to equip field level staff with the requisite job knowledge and to inculcate them in the right attitudes for proper implementation of this nationally important programme.

Self Employment to Educated Unemployed Youth (SEEUY):

The objective of the Self Employment to Educated Unemployed Youth (SEEUY) scheme is to encourage the educated unemployed youth who are at least matriculates and are within the age group of 18 to 35 years to undertake self employment ventures in industry, service and business. A composite loan not exceeding Rs. 25,000 is admissible to an eligible entrepreneur. The period of repayment of the loan is 3 years to 7 years with a moratorium of 6 to 18 months. Interest would be 10 percent on loans in backward areas and 12 percent on loans in other areas. The beneficiaries are eligible for capital subsidy from the Governments, calculated at 25 per cent of the total amount of loan. The scheme which aims at providing self employment to educated unemployed youth covers all areas of the country except cities with a population of more than one million as per the 1981 census.

The scheme was being continued on year-to-year basis from 1983-84 and had been extended till 1993. The number of beneficiaries to be assisted under the scheme target was fixed at 2.5 lakhs for the year 1986-87, 1.25 lakhs for the year 1987-88, 2.5 lakhs for the year 1988-89 and for the year 1989-90 1,25 lakhs beneficiaries to be covered by the banking system. Out of the target the share allotted to the State Bank was 56771 for the year 1986-87, 30181 beneficiaries for year 1987-88, 27528 for the year 1989-90, 32565 for 1992-93. Against this, State Bank has sanctioned Rs. 108.00 crores to 49503 beneficiaries during 1986-87 and 60.3 crores to 27203 beneficiaries during 1987-88. During 1990-91 and 1992-93 the SBI sectioned Rs. 42.4 crores to 19474 beneficiaries and Rs. 22.3 crores to 11567 beneficiaries respectively[1]. From 1st April 1994 this programme has been merged with Prime Minister Rozgar Yojana (PMYR).

Self-Employment Programme for Urban Poor by SBI (SEPUP):

During 1986-87, Government of India introduced a new poverty alleviation programme for urban poor with effect from September 1986, which aims, at providing self-employment opportunities to the poor living in metropolitan, urban and semi urban centers. Under this scheme loan up to Rs. 5000 are provided at 10 per cent rate of interest, to persons whose family income does not exceed Rs. 600 per month. The scheme is being implemented by selected branches of the public sector banks. In all cities and towns with population exceeding 10,000 and in those centers with population less than 10,000 where IRDP is not in operation. From each center covered not more than one beneficiaries for every 300 population (as per 1981 census) is to be assisted under this programme. During 1986-87 the State Bank has disbursed Rs.19

[1] SBI, Annual Reports (various issues)

crores to 58566 beneficiaries under the scheme, during 1988-89 the bank sectioned Rs. 81 crores to 39346 beneficiaries, during 1989-90 it sectioned loan of Rs. 22.8 crores to 57705 beneficiaries, and during 1991-92 it sanctioned 24.4 crores to 61425 beneficiaries[1]. Thereafter , the scheme was discontinued.

Analysis of Advances to Weaker Section by SBI:

The State Bank of India advances to weaker sections such as SC/ST small and marginal farmers and landless labourers, including beneficiaries of IRDP and DRI scheme, stood at 1762 crores accounting for 10.8 per cent of the State Banks total advances in India at the end of 1987, Rs. 2420 crores accounting for 9.9 per cent at the end of March 1990 and Rs. 4203.5 crores at the end of March 1995. Further, advances to weaker section increased to 6840.7 crores at the end of March 1999 accounting for 10.45 per cent exceeding the stipulated target of 10 per cent[2].

Conclusion:

From the foregoing analysis it has emerged that after the emergence of social banking, State Bank of India played an important role in economic development of the country. The involvement of State Bank of India in social banking and priority sectors lending during the last more than three decades has commendable and had made out..efforts to achieve the target laid down by the Reserve Bank of India from time to time. The performance of State Bank of India is better than the other commercial banks in achieving the target laid down by the Reserve Bank of India. In the next chapter, an analysis of the problem in financing of priority sectors will be made out.

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[1] SBI, Annual Reports (various issues)

2. Ibid.

CHAPTER VI

MAJOR PROBLEMS IN FINANCING PRIORITY SECTORS

Chapter VI

Major Problems in Financing Priority Sectors

In the preceding chapter, we have studied the role of Sate Bank of India in financing the priority sectors. This chapter now attempts to analyse problems of commercial banks and State Bank of India (SBI) in financing the priority sectors. Prior to nationalisation, the commercial banks had felt that lending to priority and neglected sectors was not their legitimate business. There was no trained staff to cope with the massive expansion programmes for which the banking system was ill–equipped, and training and placement was also facing problems. The importance attached to rural development and thereby to rural placements of officers had put significant pressure on the banks.

One of the most important objectives of nationalisation of commercial banks in India was to enable, hitherto, neglected sectors to avail credit not only in adequate quantity but even at the right time. The available statistics (see Table4.2) amply indicate the commendable performance of the commercial banks in increasing the flow of bank credit to priority sectors over the years in post nationalisation period.

To gain further momentum in achieving the target set by the Government, it would be pertinent to identify the problems that undermine the extensive bank credit to the priority sectors of the economy.

The analysis made out in chapters (pp 138-144) IV and V (pp 181-199) of priority sectors lending pinpoints the several deficiencies in the sphere of credit delivery and these are reflecting in the form of lack of proper attention, inadequate income generation by assisted projects, defaults, timely non-availability of credit, cumbersome nature of procedural formalities, delay in credit disbursement etc. The entire process of social banking and priority sectors lending by commercial banks suffer from various problems. The following are the major problems in financing the priority sectors:

1. One of the major difficulties in financing the priority sectors arises from the multiplicity of tasks assigned to the banks and diversity of objectives. I take a close look since 1969, the banking system on an average increased the branch network by 2500 per annum. The opening of branch in the rural centres has been mandatory and time bound.

2. Another problem has been overdues and recovery which have assumed critical importance especially during eighties.
3. Third problem has been span of control which become lengthy and an effective supervision at times become a problem. As a result of quantitative expansion, the quality of lending portfolio suffered to a large extent.
4. Since priority sectors lending was generally at concessional rates, yield on advances was affected by a large number of small accounts scattered in far flung areas of the country.
5. In agriculture, the overdues present the amount of loan, installments and interest not paid on a given due date. The increasing amount of overdues from year to year indicates the recycling difficulties and this should be considered as a major constraint in augmenting the flow of credit as the recycled resources available for making fresh loans. Moreover the increasing quantum of overdues has been affecting the banks lending to priority sectors.
6. A wrong identification of beneficiaries has been a major cause for default and non-recovery in the priority sectors lending. The bankers had initially a considerable say in identification of borrowers. But in recent years, the role of

banks has been reduced, as a result of district official examining responsibility, in this respect under poverty alleviation programmes. Though the lending banks are supposed to ensure the nobility of the list of borrowers and applications from the authorities and proceed to grant the loans. But in practice, it is seen indicates that there are hardly any checks and balances in this process. The target approach and the bunching of applications with little time left for any scrutiny and appraisal of the proposal have caused selection of wrong beneficiaries.

7. Structural and procedural factors too have affected the lending of priority sectors by commercial banks. The experience of lending to weaker sections shows that the small amount of loan granted to very poor sections have been more susceptible to be diverted to consumption, medical and other expenditure. Even with good follow up of the advances, such diversions take place. This is the result of lack of adequate banking support for meeting contingencies like hospitalization, requirement of funds for religious ceremonies and acquisition of consumer durable. If the scales of financing are adequate and bank credit is available for meeting ancillary needs, the utilisation of

credit for the purpose for which it was granted will be more affective. In the words of Prof. Khusro "there is no fool proof method of preventing large-scale diversion of funds as long as need for consumption exists"[1].

8. There are inadequacies of forward and backward linkage i.e., once credit is delivered by the commercial banks conducive environment is not readily available to absorb the credit effectively by the borrowers. There has been considerable deterioration in the quality of scheme formulation and general quality of lending due to alarming decline in the work ethics among the employees of the banks resulted into increasing inefficiency and corruption.
9. There are many cases of misuse of loans or non-creation of assets. The disposal of the assets are coming to the surface under various sponsored programmes.
10. Delay in submitting the application or submission of IRDP applications in bunches at the needed point of time and thereby creating a glut of applications at branches and therefore, applications remained pending for want of scrutiny. The scrutiny of applications get delayed partly

[1] Srinivasan R. op.cit., p.100

because of inadequate manpower particularly technical staff of the bank. Delayed loan payment occupied the important rank among all the problems of priority sectors lending made by commercial banks.

11. The implementation of priority sectors lending schemes has not much succeeded in realising the target set by the Government. There has been many cases of failure of many schemes to generate desired levels of output and income.. For example, in many parts of our country, the lack of irrigation facilities, the lag in land reforms and transfer of tenancy rights to the farmers have been major constraints in the productive utilization of credit. Similarly, the wrong identification of borrowers, inadequate attention given to appraisal of the borrowers capacity and experience and the market demand and prospects for the product have also been major impediments for the effective utilization of bank credit.

12. Extending credit to a large number of borrowers has been a costly proportion to the commercial banks not only because of the concession in interest rates but also due to the high transaction cost and risk owing to lack of collateral. Most experts on social banking agree that

subsidisation of interest and high transaction cost affect overall profitability and the capacity of the lending of commercial banks to provide for losses and unforeseen contingencies.

13. Another problem pointed out by the Rural Credit Review Committee (RCRC) indicates that two-third operational cost of lending to priority sectors are not recovered.

14. Proper assessment of demand for loan and timely disbursement of advances are also essential to keep the recovery position maintainable. In our country, the entire development programmes are targets oriented. In order to achieve targets, commercial banks go on granting loans and advances totally ignoring proper selection of the borrowers resulting into the deterioration with quality of lending. In fact, lending should be need based rather than target oriented based.

15. There are lack of inter-linked factors because of which the rural borrowers fail to pay the loan taken by them. They are unable to use the loans, taken for productive purpose because of the lack of technical know-how. Besides the amount of loans they sanctioned is not enough

to fulfill the requirements of their productive endeavours. The lack of proper infrastructure is also an important reason in this regard. Presence of old loans, social responsibility are some other difficulties which affect the recovery capacities of the rural borrowers.

16. Number of activities identified by the District Rural Development Agencies (DRDA) and District Industries Centre (DIC) which are major agencies promoting such activities are very limited as a result of which it becomes difficult to accommodate Integrated Rural Development Programme beneficiaries of varied background of the person and the skill available with him.

17. No supporting activities were made available to beneficiaries of weaker section of the society to ensure the success of activities. There is no State department to exclusively taken care of this sector, particularly on the matter of policy formulation and infrastructure development.

18. At the grass root level there are many schemes which are promoted by a large number of agencies amongst whom there is no coordination. These agencies although are promoting the same type of activities, yet the modalities of

implementation of the schemes vary from agency to agency, right from the sponsoring of loan application, fixing up of unit cost and subsidy and the other aspect of the scheme. There is not only confusion on the part of commercial bank but also the beneficiaries of the programmes are being confused.

19. Although the banks scrutinize the loan applications, the need to meet targets puts pressure on them. For the local politician in cahoots with the district administration use such loans to create patronage. They bear no accountability for non-performance of the loans and yet can direct them to those they wish to favour. As always such a system leads to widespread corruption and it is believed that between 30-40 per cent loan amounts taken went as a bribe. Thus, beneficiaries do receive 60-70 per cent of the full value of their loans and consequently the effective interest rates that they are to pay between 18-22 per cent. Further politicians often make there loans as grants and so collections became difficult for banks.

20. There are many cases where the defaulters borrowers have the will to repay the loan but can not repay because of the factors beyond their control. On the other hand there

are the defaulters, who have the ability to repay, but they do not pay. In this situation the lending performance of commercial banks is always affected and banks unable to pay attention towards the neglected sectors of the economy.

21. The selection of the beneficiaries often has been found very defective in the sense that it has not been need based. In actual practice, the real beneficiaries, who are needy people are deprived of the actual benefits and instead a list of the such person is drawn by the State agencies who succeeded in managing insertion of their names on the list but in reality they are not the genuine person who need loan.

In the next chapter, we would explain conclusion, findings and suggestions of the study.

CHAPTER - VII

A RESUME

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A RESUME

Social control and the nationalisation of banks are important landmarks in the growth and development of the Indian banking system. These measures were undertaken as matters of deliberate interventions by the Government in the working of commercial banks, with the objective of attaining a blend of banking services with national priorities of promoting economic growth and social justice with equity. These were the important turning points in the process of banking development during the period of the study of 30 years i.e. from 1969 to 1999.

Since the initiation of the policy of social banking and priority sectors lending the nexus between bank and big business houses has broken. The lopsided development of banking has been balanced by directing the banking system to exploit the vast potential of business in agriculture, the rural sector and small-scale industries among others. Since then, these new but vital areas have come within the purview of institutional credit. This change was to ensure social justice through decentralisation of production and distribution of income and wealth.

A review of the policy measures and implementation shows that the banks, left to themselves, would not have opened branches in remote areas devoid of prospects for quick business profits. A policy mandate was required to direct the banks to provide credit to small borrowers like farmers, small scale units and other weaker sections of the community at concessional rate of interest. The banks have been directed to undertaken certain socio-economic tasks with the help of incentives and subsidies to provide more assistance to the neglected sectors areas. This line of thinking has been built into the policy framework and its implementation.

Banks have been allowed the facility of opening branches in urban and metropolitan centers in certain proportion of the number of branches opened in rural and unbanked centers. This was based on the assumption that the urban branches offer quicker and better returns thus offsetting the cost involved in mandatory opening of branches at other centers, which are not so promising. Likewise, the cost incurred by the banks by way of concessional interest on priority sectors lending has been sought to cover through lending to non-priority sectors at higher rate of interest.

The evolution of priority sectors lending policies and targets has been accompanied by various support measures. The provision of refinancing facilitates to banks on their lending to agriculturist and other small borrowers has been an important policy support, so that the amount refinanced can be deployed at higher interest, thus reducing the burden of concessions entailed in priority sectors lending.

The area approach to planned deployment of credit and provision of banking facilities underlined in the lead bank scheme were other policy devices introduced for promoting social banking and priority sectors lending. Under the lead bank scheme, responsibility was entrusted to each bank to promote banking in the district allotted. A major modification of the area approach has been the introduction of the service area approach, under which every village in the country is allotted to a commercial bank branch for the purpose of credit planning and deployment.

Social banking and priority sectors lending have initially been on new lines of business for banks. The banks have successfully ventured into these areas during the period 1969-1999 undertaking gigantic organisational efforts, to fulfill the mandatory targets. This is the result of number of programmes in the field of development of human resources including recruitment and training of personnel and advancement of expertise to undertake the unprecedented task involving social banking and priority sectors lending. Opening a large number of branches in a short period has made it necessary to restructure the organisation for better control and monitoring. Greater delegation of loan sanctioning power has been introduced for expeditious credit decisions for priority sectors lending at the branch level.

In the last more than three decades that followed nationalisation of banks, the branch network increased from 8262 to 65735 in September 2000, indicating an average annual addition over 2500. Majority of new branches have been at rural and semi-urban centers and the branches at these centers accounted for 72 per cent of total number of branches. An index of banking facility is the population served by bank offices, and this has come down from 65000 per office to 15000.

A radical transformation has taken place in the allocation pattern of credit. The priority sectors lending ratio was at 37 percent in march 2000, as against 15 per cent in 1969. The trend data and analysis over the three decades in respect of priority sectors lending and growth of banking led to the conclusion that the banking system has achieved a good blend of social and commercial banking. The accessibility of the poorest of the poor to banking facilities and the re-orientation of lending mechanism of banks from security / collateral orientation to lending based upon the basic viability and income generating potential of borrowers are significant changes. This has been a major social dimension achieved by the banks in their functioning.

With all these achievements, the commercial banking activity still leaves a great deal to be desired. Attention has to shift from the quantitative to qualitative aspects of banking. This requires imparting a new dimension to deposit mobilisation, concepts of development banking, methods of more effective credit delivery and better recovery.

The study on "Emerging Trend in Commercial Banks Lending to Priority Sectors: A Case Study of State Bank of India" undertaking in this thesis would certainly open up new vista in the area "Bank Lending" at the national level and it will assist the Government and other concerned authorities to mould their policies and operations to boost up their efforts in the provision of credit especially to priority and neglected sectors of the economy in years to come.

STATE BANK OF INDIA:

After the emergence of priority sectors and social banking in India the State Bank of India had played an important role in socio-economic development in the country. The involvement of State Bank of India (SBI) in social banking and priority sectors lending during the last more than three decades has led to some operational problems like credit disbursement, recovery performance, difficult reporting and control owing to vast expansion of banking offices.

State Bank of India along with other commercial banks followed the direction by the Government to meet the target and other directions regarding the lending to priority and other neglected sectors of the economy. State Bank of India have also allowed the facility of opening branches in urban and metropolitan centers in certain proportion of the number of branches opened in rural and un-banked centers. The State Bank of India has successfully achieved the branch expansion into these areas during the period 1969-99 and have opened more than 6600 branches at rural and semi-urban centers.

Credit deployment with social implications is the essence of social banking. Since commercial bank including State Bank of India are to lend at least 40 per cent of the total advances to the priority sectors, increase in gross bank credit implies increase in social lending.

The performance of State Bank of India is better than other scheduled commercial banks in achieving the target laid down by the Reserve Bank of India from time to time. Various attempts have also been made not only to dilute and broaden the norms of the priority sectors and hitherto neglected sectors lending, but also to loosen monitoring of performance in this regard.

FINDINGS OF THE STUDY:

The findings of the study indicate that the extension of banking facilities and the increase in priority sectors lending have been at breakneck speed. It has been expedient to fix time bound lending targets for the priority sectors at fairly high-speed far compelling action by the banks. In fact this has been the only option for planners to accelerate the flow of credit to the neglected sectors. While the targets have become mandatory over the years, the basis of fixation of target has remained virtually unchanged. The targets are only macro indicators of the performance levels to be reached. In essence, the credit demand of various sectors has been subject to inter-regional variations depending upon the state of development and relative human and material resources endowments.

The concern for achieving quantitative targets stipulated at the macro level within the stipulated time frame irrespective of assessed demand or potential, has caused an erosion of the qualitative aspects of lending and credit delivery. It has adversely affected the viability of the lending of commercial banks. The weakness manifest in areas like control mechanism, follow-up of loans and recovery of banks düe, productivity and profitability. A combination of official polices together with the burden of time bound expansion have reduced the surpluses available for such vital needs as allocation to general services for increasing the net worth. As a result, ratio owned funds of banks to their average assets are much below the required norms.

Of late, the authorities have been making efforts to correct the weakness that have developed in the lending procedure of commercial banks. The steps taken to improve the lending and bring about improvement in the functioning of commercial banks for increasing the profitability. There is a recognition of the fact that the increased profitability enhances the capacity of the banks to undertake social banking more effectively and for making sizeable investments in computerisation and other facilities for improving the quality of the services.

The credit cycle, which is an important aspect of priority sectors lending comprises three mechanisms: mobilisation of deposits, effective and productive lending and successful recovery. It has been found from the study that time bound targets stipulated for banks have been causing hasty credit decisions due to the concern for meeting the target, often at the expense of quality of the project and their viability. Quality of credit portfolio has suffered, in particular due to the deficiencies in identification of the borrowers. Sanctioning and monitoring of large number of small advances is time consuming and manpower intensive, thus adding to the transaction cost, and supervision of loans has been a neglected area.

Banks have been playing an important role in bringing about the green revolution and for the creation higher production potential in agriculture. These aspects of the changing scenario of the agricultural and rural sectors have not been taken into account in the present administered interest rate structure. It has failed to take into account the capacity of the more affluent sections to bear a higher rate of interest. The emerging agricultural technologies and shifts in the agricultural sub-sectors in favour of commercially oriented agricultural indicate that a robust agricultural economy is taking chap. The credit delivery system has to effectively respond to these emerging challenges.

It has been proved form different evaluation studies conducted by banks that interest rates concessions have been considered less significant by the borrowers, as they are more concerned with the adequate and timely availability of credit. At the same time the enlargement of this area of concessions on account of the increase in priority sectors lending targets has produced an adverse effect on the self-reliance and viability of lending institution.

The important point is to convince the people that quality and timely services can be provided more effectively when the commercial banks are self-reliant. When a bank increasing a deficit is a sick one that can hardly be expected to provide efficient services. Hence, the need arises for adopting a socially tempered market system for promoting social banking and priority sectors lending under which a large segment responding to the market forces operates side by side with a smaller social segment.

Another aspect of the credit cycle is successful recovery and this is the most critical area, which needs corrective measures for improving the effectiveness of recycling and thus the viability of the commercial banks in the recovery of over dues.

Anything Government wants to deliver to rural areas, whether, it is fertilizer, whether it is insecticides or even electricity, delivery or a commodity or finance to farmer is always a difficult thing. It passes through ten, twenty various stages and a study sometime showed, that ultimately out of one rupee only 18 paise reaches the farmers and 82 paise get lost on the way[1].

STATE BANK OF INDIA:

Findings of the present study show that increase in priority sectors lending

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[1] Subramanian K and Velayudham T K, op.cit., Bans K S, "Some Thought on Rural Credit", p.533

have not been on desired level. While the targets laid down by the Government have become mandatory over the years, the basis of fixation of target has remain virtually unchanged. The targets are only macro indicators of the performance levels to be reached. In essence, the credit demand upon various sector has been subject to inter-regional variations depending upon the state of development and relative human material resources endowment.

It has been found that there is a lack of adequate staff, with the result the process of disposal of loan applications of priority sectors and periodical monitoring and recovery efforts are badly affected. After the loan is disbursed, the bank officials are unable to supervise. This consists of physical verification by visit to ascertain if the bank assistance is utilized for the purpose it was provided. However, this is most difficult on account of lack of transportation facilities and the distance to be covered. In some cases, bank officials could pay a visit to beneficiary once in a quarter or even in six months. A visit after a gap of such a long period cannot ensure proper supervision and follow up.

There is also a problem of availability of proper infrastructure, and therefore the loan amount remains under-utilized and the purpose of priority and social lending is not served. Further, there is lack of proper publicity of various lending programmes and credit facilities meant for them in different areas.

State Bank of India including other commercial banks play an important role in bringing about the green revolution and for the creation of higher production potential in agriculture. These aspects of changing scenario of agricultural and rural sectors have not been taken into in the present administrated interest rate structure. It has unable to take into account the capacity of the more affluent sections to bear the higher rate of interest. The emerging agriculture technologies and shift in the agricultural sub sectors in favour of commercially oriented agriculture indicate that a robust agricultural economy is taking shape. In many cases it was found that after the disbursement of credit no bank official were contacted to the beneficiaries of the priority sectors and hence due to this the beneficiaries very easily divert the loan to unproductive purposes.

SUGGESTIONS:

Growth in productivity is indispensable to improve the performance of banking sector. There is a dire need to transform the system of priority sectors lending on a more selective lines. Lending should focus more attention on social concern for assisting the truly weaker sections and tiny units. The Service Area Approach (SAP) adopted envisages that the branch managers could formulate the lending programme for each village to take care of loaning for all villages in India. Taken collectively as well as destructively, targets for priority sectors should be restricted to only really weaker sectors such as small and marginally farmers, rural artisans, tiny sectors etc. And large farmers and large among the small scale industries sector be given less preference. In the process, the proportion of credit for the deserving segment in priority sectors would automatically go up.

There is a need to phase out the concessional rate of interest for priority sectors loan of small sizes. Similarly, it is recommend to gradually phase out the direct credit programmes for redefined priority sectors consisting of small and marginal formers tiny sectors of industries, small business and transport operators, village and cottage industries, rural artisans and other weaker sections for preparing detailed credit programmes.

For proper utilisation of banking facilities certain primary infrastructure facilities of transport, communication and backward and foreword linkages of production need to be established simultaneously or prior to the entry of banking services. Development inputs other than credit should be made available along with credit. There is an urgent need for revamping of rural lending from the present target oriented concept to result oriented approach.

Rather than compelling banks to lend to weaker section, i.e. small and marginal farmers etc. the Government should strengthen viability of business conducted by the weaker sections. Once these become viable, they will also become credit worthy.

There should be region specific targets rather than general targets. The culture of casualness and permissiveness which are emerging in the sanctioning of loans need to be arrested it would effect the outlook and attitudes of bank functionaries in handling their other lending. One of the import considerations for successful implementation of the credit programme is social banking relating to the credit delivery mechanism of the commercial banks. Credit delivery mechanism relates to adequacy and timeliness of credit supply and it's certainly.

The Khusro Committee has pointed out that while in the context of present day socio-economic milieu, a degree of concessionality needs to be retained in favour of the very weak sections of the community, there is hardly any justification for granting such concessionlity in the case of other borrowers.

The commercial banks should divert their entire force for the development of rural economy rather than giving narrow considerations to the accomplishment of target oriented credit programmes. Since such attitude serves no meaningful purpose except to create condition of perpetual dependency of the rural poor on the organised financial institutions which is as bad as their dependence on the money lenders.

There is a need to undertake detailed evaluation of priority sectors lending on a regular basis with a view to taking corrective measures where necessary and ensuring submission of progress reports to the banks "Board of Directors". Review of performance on a summary basis may be undertaken by the controlling regional head offices of banks.

Policy measures should ensure that social costs are absorbed by the Government and not by the bank. Social banking needs to be improved through careful attention being given to project formulation, backward and foreword linkages of the activities financed and proper selection of borrowers who can make productive use of credit. If the overall objectives of the lending to priority sectors are to be fulfilled, bankers need to be given complete freedom in selecting borrowers, assessing viability of the activities deciding the total number of loans to be given for a particular activity. The commercial Banks should be provided adequate staff to supervise utilisation of credit.

Improvement in productively is indispensable to improve the performance of banking sector. Following recommendations of the Narsimhan Committee should be considered for implementation, (1) phasing out of the concessional rate of interest for priority sectors and keeping it to 10 percent of gross credit. (2) Withdraw of subsidies in some of the developmental programmes like IRDP. (3) Increase of Bank Deposit Rates with reduction in Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) and payment of interest rate equivalent to those determined by market forces, thus compensating banks adequately for funds deployed by them under these heads and, (4) simplifying further the interest rates structure and changes in bank expansion policy.

The State Government should pass a legislation for speedy recovery of agricultural dues on the lines recommended by the Talwar Committee at an early date and necessary steps must be undertaken to put into operation the requisite administrative machinery for enabling the banks to avail of the legislative provision. In respect of loans to artisans, village and collage industries and other weaker sections also, the State Government may ensure that measures for speedy recovery of loan are initiated, if necessary, through special legislative providing for recovery of loans to those sections as if they were arrears of land revenues.

Since our economy is divided into two major groups, the rich and the poor, the interest rate have to be different for the two groups. Adoption of a simple two rate structure, one concessional in favour of weaker sections and the other, the non-concessional rate applicable to all other borrowers, merits serious consideration by the authorities. Such a structure being operationally convenient will help the banks to generate interest surplus to take care of the viability aspects.

The experience of priority sectors lending has been a unique and is realm of banking business. The obstinate adherence to the norms and policies requires to be modified in the light of the experience gained so far. While, to begins with, stipulation of mandatory lending targets at the macro level was only expedient course available to planners to increase the flow if credit to the neglected sectors. Over the years, it has become increasingly evident that the targeting system has not only taken into account the regional variations in resources endowments and credit needs as also the branch network and capacity of different banks operating in different regions.

A distinction has to be made between overall national development and the social priorities. Such a distinction is useful for the application of interest rate concessions. Social priority underlines credit assistance to the poor to acquire productive assets and generate income to cross the poverty line.

The policy devices affecting banks will have to reviewed and modified taking into account the changing conditions and needs of the priority sectors credit. Policy formulation is done at various levels of authority in the Ministry of Finance and Reserve Bank of India (RBI). It is necessary that the banks are taken into confidence while formulating policies through effective consultations in streamlining and implementing the policies.

We came to the point that probably 40 per cent is right, probably it is 45 per cent or probably it is 35 per cent, I do not know. A committee should go into it and see. But we can not get away from the fact that over the years 70 per cent of the working force has continued to get only 30 per cent of the investment or credit.

While financing business activities, the scope of business must be investigated on the basis of local demand and existing shops demand in the area. Instead third party payment, cash payment, to a beneficiary can help him purchase the stock from supplier of his choice, at bargaining price. In this way, he may also be able to purchase quality products.

STATE BANK OF INDIA:

In the light of the findings of the study it would be desirable that suggestions are made to help in the proper formulation and implementation of mechanism for priority sectors lending.

The present study is a case study of State Bank of India in financing priority sectors in India. However the other commercial banks had also provided finance to priority sectors since 1969. The policy of Reserve Bank of India regarding the financing of priority sectors was not fully achieved by the commercial banks including the State Bank of India.

In agricultural sectors younger farmers should be given preference than old farmers. It is perhaps the younger farmers who can run agricultural on scientific lines. Literacy level of beneficiaries has been found to be positively correlated with incremental income which fact brings out that literate farmer can make more efficient use of bank credit.

Village and cottage industry has a good potential for employment generation. Before making an advance for small industry, the branch manager should make a survey to find out which industrial activity can be encouraged, taking into account the scope of business, marketing facilities, availability of raw material, expertise of the people of the area. The provision of backward and forward linkages is most important for success of this sector.

Economic viability and technical feasibility of the schemes to be financed by banks should be scrutinised and the benefits derived by the beneficiaries be estimated very carefully. In order to cater to the needs of large number of beneficiaries, it is essential to formulate new schemes with local feel. It would be more useful to prepare primarily those schemes of traditional industrial units, which involve more and more use of local raw materials and skill and have good scope for local marketing. A beneficiary should be provided with an asset, which he can handle properly.

There is a need to publicise various priority sectors lending programmes, and simplify the formalities to be observed by various types of beneficiaries for availing themselves of the bank loans. Credit should be made available to the borrowers in adequate quantity and in the minimum possible time. Delay in disbursement of credit may turn productive into un-productive credit. Moreover, it also causes harassment to the beneficiaries.

With a view to ensuring proper utilisation of credit the need for a close and effective supervision can not be over emphasised. It is suggested that the banker should have a closer rapport with the borrowers to create credit consciousness in their minds. This would motivate the latter for repayment of loan.

The repayment installments should be fixed taking into consideration the income generation, making allowances for consumption need so that the installments are manageable.

The rural branches must be adequately staffed to exploit the potential for lending, ensuring the end-use of credit, recovery of bank dues, house-keeping and preparation of area-specific for priority sectors lending.

It is recommended that physical targets as regards coverage of beneficiaries under poverty alleviation programme should be determined with due consideration to the level of development and economic conditions prevailing in different areas. To make credit plan really effective, economic plans at the micro level i.e. for a village and then for a block area of utmost importance. The plans should be evaluated to find out the extent to which it is viable.

Under Service Area Approach, a branch manger has been assigned a very significant role to play. He should ensure that credit flow to genuine borrowers for viable and income generating activities.

To sum up, the success of commercial banks including State Bank of India's role in financing to priority sectors to a great extent depend on how effectively it is administered by the implementing agencies and the extent to which the modus operandi of the programme is understood and accepted by the banks.

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